JANUARY 19

The Mortgage Banker

MORTGAGE BANKERS ASSOCIATION OF AMERICA
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in this issue

HOW THE PROSPECTS FOR MONEY AND BUILDING SHAPE UP FOR THE NEW YEAR—A VARIETY OF VIEWS

President's Page

THE NEED FOR FLEXIBLE INTEREST RATES MORE ACUTE THAN EVER

IT is still a little early to measure the results of the rate increase for FHA loans to 5 per cent. I said at the time, in a public statement, that the adjustment was welcome and would be helpful to the market for FHAs but strongly emphasized that the real solution rested in completely freeing FHA loans from all artificial controls. I am sure I reflected the view of our industry that only a completely flexible interest rate for FHA loans will do what sorely needs to be done.

The next development to anticipate is what will be done about VA. The need for readjustment is even more pressing here. A good case will be made for a similar one-half of one per cent increase in rate but, in view of some of the statements I have heard since the FHA action, this may not be accomplished quite so smoothly. Chairman Teague of the House Veterans' Affairs Committee has said he will oppose it, that he considers an expansion of the direct lending program the answer. Representative Patman has indicated he will introduce legislation early in the session to forestall an increase. Some veterans groups have indicated their own opposition. I feel more strongly about VA than I did about FHA—an increase will be welcome, will be of some benefit but the real solution is complete freedom from artificial controls. If no action is taken on VA—which, I suppose, could happen—then the future for this loan is obscure to say the least. What concerns me as much as anything else at the moment is the threat of a really large-scale direct lending program which the possibility of no action presents.

John F. Austin, Jr.

The Wall Street Journal, in an editorial of November 28, made one of the most thoughtful observations on the VA matter I have heard. If you did not see it, I suggest you read it now:

"We dare say everybody would like to buy shoes and shirts cheaper. But if someone in Washington were to propose that the Government now slap price controls back on shoes and shirts, we don't think many people would be impressed.

"And if the Government proposed, further, to fix the price without regard to costs and supply but simply on the ground that these things 'ought' to be cheaper, we suspect even housewives might realize what this kind of economics would do to their home economics.

"The public has now had enough experience with price controls to know that while it may sound good to set a low price by Government order, the order doesn't get shoes for baby. It either makes for scarcity or a black market or both. Most people are no longer unsophisticated about the relationship among demand, supply and price when it comes to goods in the store.

"But when the commodity involved is money itself this clear relationship seems somehow to get lost in a fog. So possibly a good many people think that the Director of VA Benefits, Ralph Stone, is talking sensibly.

"Mr. Stone thinks that the present rate on veterans' mortgage loans, 4½ per cent, is just exactly what it 'ought' to be. Anything higher is unfair to veterans. Therefore, he says, the VA ought to insist on that rate and not approve any veterans' mortgages at a higher price for the money.

"Well, as one of the veterans Mr. Stone is solicitous about, we think it a nice wish. We would like to be able to rent some money at a price of $4.50 a hundred dollars, or about a dollar cheaper than the going price, just as we wish we could still buy a good quality shirt at the pre-inflation price of a dollar.

"But the price of money has gone up because everybody, veterans included, has been gobbling up so much of it that the available supply is being used up. So who is going to rent us money for $4.50 when the going price is $5.50? How comforting is it to know that the O.P.A. price on a shirt is $1.00 when there ain't no shirts?

"Mr. Stone, of course, is aware of this. But just the same the price 'ought not to be' higher. So he proposes that the Government rent us the money. This might scare the wicked lenders into cutting their price; if it doesn't, the Government will undercut them.

"If Mr. Stone would ask Secretary Humphrey, he would learn that the Government is paying higher prices for its money too, and for the same reason. The only difference is that the Government has one other place to get dollars. It can just manufacture them and pass them around and so cheapen the value of all dollars. And that, really, is what Mr. Stone's proposal comes down to.

"We suspect Mr. Stone's proposal will get a lot of support from people who are very sensible about shirts but think that money is somehow a commodity which it is the Government's moral and bounden duty to supply at a 'just' price no matter what the cost.

"Why the distinction, we don't know. But perhaps it is because it is obvious to everybody that not even a Government can create shirts or shoes out of nothing."

J. F. Austin, Jr.

PRESIDENT

MBA 1957 Calendar

January 17-18, Mortgage Servicing Clinic, Bellevue-Stratford Hotel, Philadelphia

January 22-24, Senior Executives Conference, New York University, New York

January 27-29, Senior Executives Conference, Southern Methodist University, Dallas

February 20-21, Midwestern Mortgage Conference, Conrad Hilton Hotel, Chicago

February 22, Board of Governors Meeting, Conrad Hilton Hotel, Chicago

March 14-15, Mortgage Servicing Clinic, Statler Hotel, St. Louis

March 21-22, Southern Mortgage Conference, Hotel Roosevelt, New Orleans

April 15-16, Eastern Mortgage Conference, Commodore Hotel, New York.

April 25-27, Southwestern Mortgage Clinic, Paradise and Jokake Inns, Phoenix

May 9-10, Mortgage Servicing Clinic, Biltmore Hotel, Los Angeles

May 15, Board of Governors Meeting, Golden Gate Hotel, Miami Beach.

May 16-18, Southeastern Mortgage Clinic, Golden Gate Hotel, Miami Beach

June 23-29, School of Mortgage Banking, Courses I and II, Northwestern University, Chicago

June 30-July 6, School of Mortgage Banking, Course III, Northwestern University, Chicago

July 28-August 3, School of Mortgage Banking, Course I, Stanford University, Stanford, California

August 4-10, School of Mortgage Banking, Course II, Stanford University, Stanford, California

November 4-7, 44th Annual Convention, Statler Hilton Hotel, Dallas

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The Mortgage Banker

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Volume 17 **JANUARY, 1957** **Number 4**

Contents

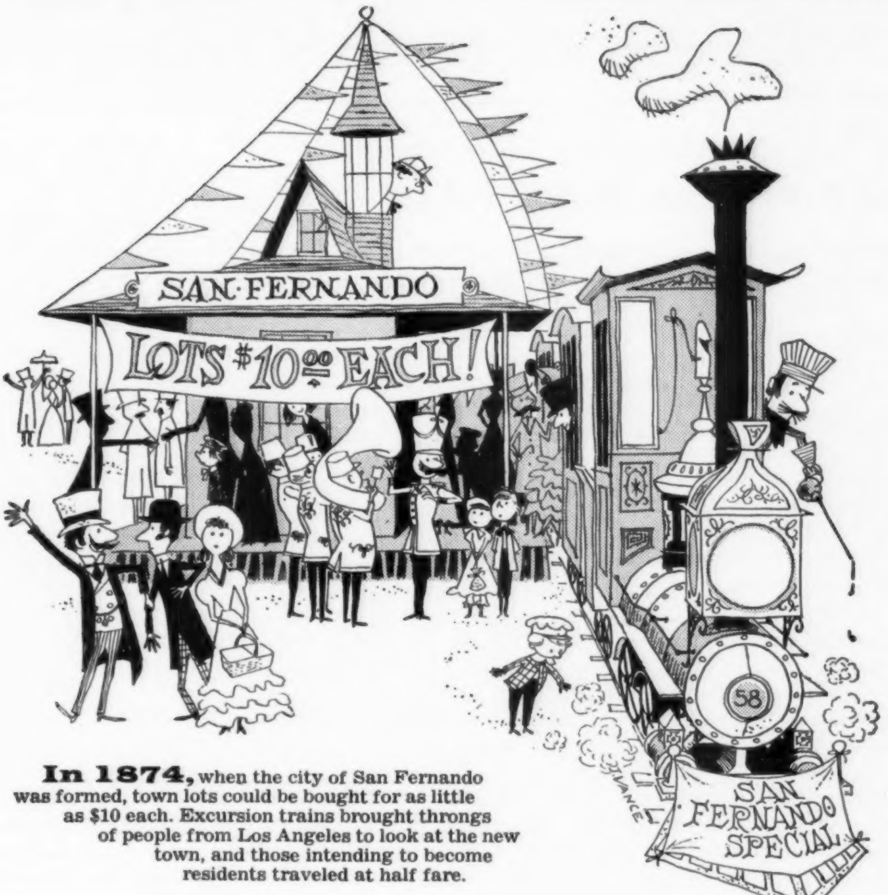
National Homes Mortgages

are sound, long-term investments

Created by Charles M. Goodman, AIA, one of the nation's foremost residential architects, the attractive designs and practical floor plans of National homes assure the lasting satisfaction of the home buyer. With dozens of basic plans and hundreds of floor plans available—in all price ranges—National Homes' builder-dealers offer homes to meet every taste and need. And the quality materials and construction methods used assure greater value through the years.

Soundness of design and construction is only one of many reasons why more than 600 banks, insurance companies, building and loan associations and other lending institutions—among them the largest in the nation—invest in National Homes mortgages. Experience has shown that these mortgages provide an excellent return for dollars invested. National Homes Corporation, Lafayette, Indiana. Plants at Lafayette, Indiana; Horseheads, New York; Tyler, Texas.

ONE OUT OF EVERY 48 HOMES BEING BUILT IN AMERICA TODAY IS PRODUCED BY... nh National HOMES



In 1874, when the city of San Fernando was formed, town lots could be bought for as little as $10 each. Excursion trains brought throngs of people from Los Angeles to look at the new town, and those intending to become residents traveled at half fare.

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Highways and Byways of Business

Objectives for the Mortgage Industry in Planning a Better Operation in Future

A COMPREHENSIVE public commission re-study of all the nation's fiscal and monetary policies.

Lower insurance premiums on FHA home mortgages.

Higher interest rates on FHA and VA home mortgages.

These were the main recommendations of 17 top housing and mortgage authorities who participated in a recent House and Home Round Table on the critical problem of financing for the slowing contracting home-building industry.

The participants included William A. Clarke, Philadelphia, former MBA president; former presidents Thomas P. Coogan and Richard G. Hughes, of NAHB; Henry A. Bubb, former president, U. S. Savings & Loan League; Milford A. Vieser, chairman of the joint sub-committee on housing and mortgage loan policies of the two largest life insurance company associations, and John Meyer, senior vice president, J. P. Morgan & Co. Government "observers" who attended were George B. Kneass, Assistant to the Under Secretary of the Treasury for Monetary Affairs; Winfield W. Riefler, Assistant to the Chairman of the Federal Reserve Board, and R. J. Saulnier, chairman of the President's Council of Economic Advisors.

"Tight money is a major reason why builders all over the country are cutting back. Many are getting completely out of the market; NAHB has warned all its members not to build without firm written assurance of financing and many builders fear that housing starts in 1957 may drop to 850,000—or 35 per cent below the 1955 level.

"The same mortgage shortage that is cutting off money to build new homes is making it harder to finance urban renewal and the fixing of existing houses, except with short term credit at high interest rates (9.6 per cent or more).

"All of us recognize the need of credit restraint, but we think everyone should realize that among all major industries home building has been hurt first and worst by the tightness in the money market and the credit restraints of the past two years. In fact, the builders among us protest that there is still no effective credit restraint program for anyone else.

"As evidence they cite: Since the present restraints began taking hold about January 1955, the gross national product in dollars has risen 8.2 per cent; employment has risen 11 per cent; expenditures for plant and equipment have increased 42.8 per cent. But home building starts have been cut back 31.4 per cent from their seasonally adjusted peak in December 1954 to the new low hit this September. Nearly all this cut in housing has come in the sector of the market that relies on FHA and VA financing; i.e., the lower-cost house market. VA starts in September were 30 per cent under 1955; FHA starts were 38 per cent; but conventionally financed starts were down only 9 per cent.

"Our dynamic economy will need more and more capital investment and more and more credit expansion if we are to provide better and better living for our soaring population with less and less man hours of work.

"These needs are too great to meet without major changes in the banking, fiscal and economic policies of the past generation. They are so complex and so difficult that our Round Table can only suggest their nature and their magnitude without offering any solution. . . . They are so urgent that we advocate these measures:

>> RECOMMENDATION No. 1— A broad public commission study of all U. S. fiscal and monetary policies. There has been no such comprehensive study since the Commission of 1911 which laid the foundation for the Federal Reserve System. Since then our economy has changed almost beyond recognition. It is high time to restudy all our banking policies and systems and their relation to our tax policies, our business policies, our labor policies, our tariff policies, and our spending policies. Such a study would take many months, perhaps years. In the meantime we recommend five other steps that can be taken fast to help home building get a better share of the money now available.

>> RECOMMENDATION No. 2— Raise the ceiling on FHA-VA interest. Already the effective rate on FHA-VA loans is close to 5 per cent in most parts of the country and higher than 5 per cent in many places, for a 4 per cent discount is roughly equivalent to ½ per cent higher interest. Discounts may be a good way to meet temporary tightness in the money market or to equalize regional markets, but they are a wrong and ineffective way to meet a continuing rise in interest rates. They fail to produce the needed money for the borower, and they impose an intolerable hardship on the builder. It is completely unfair and unreasonable for FHA and VA to expect the builder to take $600 to $800 out of his profit to pay for 4½ per cent money.

'We can offer no asurance that a 5 per cent rate would make FHA and VA money freely available. On the contrary, we recognize that as home building raises its bid for money other industries might well bid higher too.

"But this much we can state positively: Unless and until the FHA-VA interest rate is raised, less and less money will be available for FHA-VA loans. With a VA guarantee or FHA insurance many lenders will make 90 per cent to 95 per cent loans for ½ per cent lower interest than they will make 67 per cent to 80 per cent conventional mortgages, but there is little use counting on them to accept a wider spread. . . . All of us agree the faster the change (for higher rates) is made after Congress convenes, the better.

» RECOMMENDATION No. 3—Lower the FHA insurance premium on Sec. 203 mortgages. This would help compensate for higher interest. The present FHA premium on mortgages carried to maturity works out to nearly twice the premium private underwriters charge for comparable insurance in England. It is twice as high as the premium Canada inaugurated in 1955 after careful study of mortgage experience in other countries.

The research just completed by Professor Ernest M. Fisher of Columbia University with the help of funds put up by the Life Insurance Association of America, the Association of Mutual Saving Banks, MBA, and the U. S. Savings & Loan League, suggests that:

» FHA reserves are already more than adequate to meet a mortgage collapse as catastrophic as 1932.

» FHA should be able to get by with smaller reserves, because FHA can pay off any defaulted mortgage in debentures. This provision was written into the law so FHA would not have to sell foreclosed houses at panic prices below mortgage value.

» A single 2 per cent premium paid in advance would probably net FHA more income than today's ½ per cent a year premium on a declining balance, with each premium a little smaller. It would also save FHA a lot of penny bookkeeping.

"Without time for a full study, we are inclined to suggest that FHA should substitute a single 2 per cent premium for its present ½ per cent annual premium, and that the cost of this insurance should be added (as in England) to the cost of the house and the face value of the mortgage; i.e., it should not be added to the down payment.

» RECOMMENDATION No. 4—Develop a new instrument to broaden the market for mortgages. Thirty years ago the guaranteed mortgage certificate, available in denominations from $100 to $500,000, was one of the most popular and widely held investments, attractive to individuals and institutional investors alike.

"Because these certificates were scandalously abused during the 20's and sadly discredited by the mortgage collapse of 1932, we have gone to the

opposite extreme. The ownership of FHA mortgages is restricted by law to 'qualified investors' with over $100,000 capital. . . . To help mortgages compete for money in a broader market there is now urgent need for an improved counterpart of yesterday's easy-to-handle guaranteed mortgage certificate—a new certificate, debenture, or participation that would convert VA and FHA mortgages into corporate interest-bearing certificates.

» RECOMMENDATION No. 5—Modernize the state mortgage laws. In Texas you can foreclose a mortgage in less than 30 days for an average of $20. But in Michigan it takes 15 months, costs roughly $90. In Illinois it takes 19 months, in Alabama 25 months, in Massachusetts it costs $200.

"As long as money was easy and lenders were beating the bushes for places to invest, no one worried much about these laws. But now it is high time builders in states where foreclosure is slow and costly make common cause with the mortgage bankers to get foreclosure laws for non-farm property that will not drive mortgage lenders away.

» RECOMMENDATION No. 6—At least recognize the big advantages and incentives high taxes offer corporate borrowers. When a corporation borrows money for plant and equipment it can deduct 52 per cent of its interest payments from its Federal tax bill. Most home owners use the short income tax return and take the same flat 10 per cent deduction regardless of what interest they pay. If they do take a separate interest deduction, it is seldom more than half the corporate borower's 52-58 per cent saving.

"All of us believe that when we cannot find savings and credit enough to finance all the investment we want to make, the one best way to ration money is through the free action of a free money market. But how can the free money market give home buyers their fair share as long as corporate competitors for money can, in effect, charge more than half their interest payments and more than half their entire investment to the federal and state governments?

"Perhaps the best quick answer to this problem would revive the voluntary credit control program that worked so well during the Korean War to discourage unnecessary or marginal demands for money."

Round Table moderator was P. I. Prentice, editor. Additional participants: Chicago home builder Philip M. Klutznick; Neal Hardy, director,

National Housing Center; George B. Roberts, vice president, First National City Bank of New York; R. Stewart Rauch, Jr., president, Philadelphia Saving Fund Society; Baltimore urban renewal specialist and mortgage banker James W. Rouse; Walter Hoadley, treasurer, Armstrong Cork Co.; Washington construction economist Miles L. Colean; NAHB economist Nathaniel H. Rogg; and Arthur Weimer, Dean, University of Indiana School of Business.

Sees Greater Volume Of Low Cost Housing

The home-building industry's "best known secret" today in Washington is a sensational "fore-glimpse" of future housing needs that indicates America will have an enormous surplus of low-cost housing scarcely three years from now even if no more low-cost units are built in the interim, House & Home says.

Based on a confidential report by an anonymous author identified as "the best informed housing expert in Washington," the magazine says:

"To be precise, the 1960 surplus of cheap housing will be 4,580,000 units if we assume that each family will choose to live in a home worth roughly one year's income. The surplus will be much bigger if we assume (as FHA usually does) that a family can afford a home that costs a little less than two years' income.

"Because of this great surplus of low value units, price declines in the lower price range 'will probably be large.' This will make it harder than ever to sell cheap new houses. In the higher price ranges demand will be very strong."

This study of future housing needs suggests big changes in U. S. housing policy.

Next 10 Years Seen as Big Building Era

A spectacular boom in U. S. building construction over the next ten years is seen by Architectural Forum. By 1966, new construction is likely to be running at a rate of nearly $64 billion a year, a massive 45 per cent above 1956's volume of $44 billion.

The forecast is the result of a special study by Miles L. Colean. He sees almost every building type from farmhouses to factories sharing in the boom.

» Total new private construction, ten years from now, will have climbed 41 per cent, while public building will be up close to 53 per cent.

» Non-residential building, under heavy pressures for more schools, hospitals, new and improved industrial plants and commercial structures, will rise nearly 43 per cent to $18.4 billion.

» Residential construction faces a 26 per cent expansion in housing starts to about $17 billion.

» Highway building will probably have more impact on construction over the next decade than any other factor in history. Outlay for roads and streets will rise 75 per cent by 1966.

» Public utilities and sewer and water facilities will show tremendous gains, ranging from 58 per cent to 84 per cent.

The projections are based on a 1966 population of 197 million and a gross national product in that year of $575 billion (in terms of 1956 dollars). For the past decade, construction's share of gross national product has been 9 per cent. But in line with improved standards of living it seems likely that building's future slice of the total product will be at least 11 per cent and probably a bit better.

Money Tight for All Types Property Loans

As seems to be true for every credit need, the market for industrial real estate financing is tight, according to a survey by the Society of Industrial Realtors.

In the East, typical situation summaries from New York lenders included a comment from Edward C. Rose, Jr., assistant vice president of the New York Life Insurance Co.:

"There is no limitation dollar-wise on the amount of the loans which we would consider. Interest rates, naturally, vary with the market, and at the present time, I would say that the rates which we would look for would run upward from 4½ per cent. The length of the mortgage would run approximately 15 years, and the percentage of loans to appraisal could run as high as 66⅔."

Henry F. Fisher, chief field appraiser for the Equitable Life Assurance Society of the United States, indicated a continuing interest by the company in making loans on industrial properties, and a preference for new structures. Observing that the present rate of interest on such loans is 5 per cent, he said that consideration is given to a "slightly lesser" amount of interest in cases of unusual merit.

Indicative of lender-response in the Middle West were the reports of four leading Chicago banks as summarized by a society member:

Whatever loans of this type are made, he said, are limited to two-thirds of the appraised value, for a maximum, with one exception, of seven years, and at an interest rate now at 5 and 5½ per cent except for short term loans to exceptional top flight borrowers. "In general, it may be stated that these banks do not solicit industrial loans, but rather make them as a banking matter rather than for yield on an investment."

Included in Far Western comment was the following from J. R. Jones, vice president of the Security-First National Bank of Los Angeles:

"It is impossible to place either dollar amounts, percentage, or interest rates on an absolute basis for our consideration of real estate loans. We make loans on all types of security, but the amounts and terms are determined in each instance on the property involved and the credit risk of the borrower."

A similar report was made by Linden L. D. Stark, vice president of the Crocker-Anglo National Bank of San Francisco.

In the South, M. G. Follin, vice president of the Pilot Life Insurance Company of Greensboro, N. C., expressed a preference for 10 to 15-year

loans on modern industrial plants at 5 to 6 per cent interest on 50 to 60 per cent of the appraised valuation. A representative comment from Texas was that of A. D. Harder, vice president and treasurer of the Southwestern Life Insurance Company, who said:

"As a general policy, we consider 60 per cent of valuation as the maximum for this type (industrial property) of security. Interest rates vary from time to time in proportion to rates obtainable for loans on other types of security, and at present our judgment is that 5 per cent is a fair minimum rate."

Modern Lorenzo

Tribute to an MBA member: John Fischer, writing in The Editor's Easy Chair in Harper's magazine, observed —"Special Christmas greetings to a list of remarkable people, whose deeds —splendid, eccentric, or merely outrageous—have not received the attention they deserve: First, A sterling silver market basket to **Jim Rouse** of Baltimore, the Lorenzo de' Medici of the shopping centers; because he is bringing one segment of civilization back to a level it has seldom reached since the Athenians bought their groceries in the Stoa two thousand years ago. In the super-bazaar he developed near Baltimore (and some thirty others in this country and Canada) he is proving that beauty—blossoming forth in sculpture, trees, fountains, and first-class architecture —can be good business . . . that shopping can be made a pleasure instead of an ulcerous ordeal . . . and that urban life might someday be reorganized on a much more tolerable pattern."

A quote from the hotly-debated proposal of Elliott V. Bell, editor and publisher of Business Week:

"We have forced upon our National Administration responsibilities for insuring the stability of our economy, for seeing to it that employment is maintained at a high level. That responsibility has been made specific by the Employment Act of 1946. Yet, by the accident of history, in the most critical area of all for the achievement of these objectives—the area of monetary management—we have cut off the National Administration from any operating responsibility. We have committed ourselves to defend the economy against future depressions.

"There is abroad today a widespread uneasiness and much questioning concerning our money policies. Is our monetary system equal to the tasks being asked of it? Are we, perhaps, holding out false hopes which, like the delusions of the 1920's, will lead to a bitter awakening? The suggestion has been made by Allan Sproul and others that it is time to set up a new Monetary Commission to take a long, deep look at our whole money system. That, I believe, must surely be done."

WHAT BUILDERS SEE AHEAD

By JOHN M. DICKERMAN

Executive Director, National Association of Home Builders

DURING 1956, the money tightness and a host of other factors combined to cut builders' profits sharply, at the same time raising the proportionate share of the price of each house that went to the lender, the real estate broker, and the advertising media. Next year we think things will be better, even if volume remains the same or a bit lower. For one thing, builders have trimmed their sails to the prevailing winds. They are now no longer starting too many homes without firm financing commitments — both construction money and take out money, or permanent financing. This means they will not be such easy marks in bargaining for financing; no longer will they get construction too far ahead of sales; areas of temporary over-building will be far less, and fewer builders will find themselves for any extended period of time with that worst of all possible fates — unsold houses — those unsold houses which eat up astonishingly quickly any profit. As a result of the lessons they learned so well in 1956, most builders should do better in 1957, even if at the same or a slightly lower volume.

But let's look at the fundamental problem: it is the tremendous demand for credit of all kinds which is far out-pacing the supply of savings available for investment. This is true, even though the savings of the American people are at exceptionally high levels.

I am afraid that tight money is going to be a problem for a long time, but I hope that the necessary adjustments will be made—and I am confident that they can be without adding to the dangers of inflation—which will permit home building to obtain its fair share of the available investment funds.

Home building, by its very nature, depends upon a stable flow of long-term mortgage money if it is to do its job successfully. Of necessity there must be a re-examination of our credit machinery. The rules of the game have been changed, but the old techniques remain. Facilities that worked very well during an adequate flow of credit are simply incapable of operating smoothly and efficiently in periods of tight money such as we now are experiencing. The basic rules of the credit game are going to have to be

changed. There are a great many ideas on how to go about changing these rules.

As for 1957, if I had to sum up my opinion in a single word, it would have to be "uncertainty." This is really the day of the clouded crystal ball.

The home building industry can, like any other industry, take a look at the market and produce some figures on what demand is likely to be. The outlook now is for a strong demand. We can look at costs, as we have done, and tell pretty well whether our product is going to cost more or less next year. Unfortunately, it is going to cost more.

Obviously, with the thousands of independent home builders, some small, some medium, and some large, we can't say we are going to produce "X" model houses that will sell for "X" number of dollars and we intend to produce "X" number of this particular model. But we can, on a national basis, follow forecast procedure customary to other businesses with fair results.

Now just where does our uncertainty lie? Much of it lies in the field of mortgage credit, without which the home building industry cannot survive.

Will the demands for credit from competing non-housing sources be of the same magnitude as this year? Will it be greater, or less?

Will our economy continue to expand at the same rate as in 1956? Will the American people save more, or less?

And for that matter, what is the Federal Government going to do in this area? What actions, if any, will the Executive Branch, the Congress, and an independent agency such as the Federal Reserve Board, take about the present tight money situation?

I don't know the answers to these questions, but there is one thing that I do know: it is that I'm not pessimistic about the home building industry or its future.

We've got problems, many of them, but they are problems which can in time be solved. We were hurt in 1956 but the basic health of our industry has not been seriously impaired. We may not be as robust as we were in 1955, but we are a long, long way from needing crutches.

I think that we are going to see some improvement in 1957. I don't expect this improvement to start immediately.

On the basis of what we do know —and leaving government out of it —the home building industry will move into 1957 at an annual rate of production of less than one million starts. Just how much less, we frankly do not know. But we do know that any abrupt halting or reversal of the present downward trend is out of the question.

It follows that because of the up to six-months lag between the time that a house is planned, financing arranged, and construction is under way that the spring months are going to be dreary as far as home building is concerned.

I do not expect this condition to last throughout the year. I am hopeful that we shall see some improvement in the mortgage market, although perhaps not as much as we would like to see. Some tapering off in the tremendous rate of industrial expansion, some decrease in government outlays could, for example, be reflected in some relaxation of the extremely tight mortgage credit market we now are experiencing.

There are, I believe, some actions which the government could take which would be helpful. And we builders can and must make some improvements of our own. This we are going to do.

The year 1957 will be slow starting for the home building industry. But there will be a pick-up somewhere along the way. If this takes place, as I expect, our industry will start, for the eighth consecutive year, one million or more new houses in 1957.

Building Is Now Well Into Its Expected Transition

But No Sharp Slump Is Ahead says W. E. Hoadley, Jr.

The expected day—the day feared by some—when building will definitely "turn the corner" is not in the future—but here now. The building trend has turned—but in a different way than anticipated by many. The turn has come, the period of shortages is over, and now the dominant trend in the future will be on selectivity. There has been no sudden, sharp stoppage; instead the transition has been smooth, bringing no economic upheaval in its wake. But there are problems ahead, as Mr. Hoadley points out. He is treasurer of Armstrong Cork Company, an organization with its finger on the sensitive pulse of housing and building.

IS THE recent decline in new homebuilding a sign of temporary weakness or a signal that the housing boom is over?

How much longer will the boom in commercial, educational, and other non-residential building last?

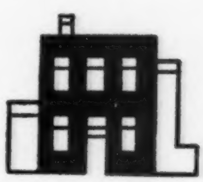
What important changes in building can now be foreseen which investors and others should watch?

As to the first question, the building industry has entered a transition stage from postwar boom and shortages to a period of change and new growth opportunities.

For more than a decade, and until recently, building was marked by almost uninterrupted sellers' market conditions. Shortages of living space, business space, materials, and labor forced prospective buyers pretty much to take what they could get and to pay whatever price tags were set. While local building shortages persist, buyers' market conditions are appearing on all sides. Typically, homes are now being sold after completion rather than from sketches, models or blueprints. What the buyer wants, rather than what the builder finds most expedient to build, is now shaping new home construction.

But this return of buyers' market conditions should not be alarming. The same situation holds in most consumer markets today. Nor does it mean a drying up of interest in new homes. If you have visited any new tract of well designed homes in recent weeks, you must have been impressed by the large numbers of families still inspecting the new dwellings. This is true in virtually all sections of the country. In fact, many of the same strong forces which have caused the recordbreaking boom in building in recent years are still very much in evidence:

» First, the need for additional space for living, business, educational, and related purposes continues to be very great. The trend toward larger families, greater population mobility, growing suburbs, expanding businesses, and new residential and industrial locations is a very familiar story to everyone.



» Second, noticeably higher living standards continue to take their form in increased demands not merely for decent housing but for modern housing. The more than 11 million new homes built since the end of World War II have definitely accelerated the impact of style obsolescence upon housing. Recent studies show that dissatisfaction with existing housing is still very high among millions of families. This is not only because of space limitations, but frequently because of obsolete design, out-moded plumbing and heating equipment, ancient kitchens, and similar items—plus locations which have lost their desirability. Interestingly enough, these problems seem to become most acute for families when their first child reaches school age and again when the children become teenagers.

» Third, the number of homes being removed from the housing market is rising. Obsolescence, enforcement of housing codes, and demolitions from slum clearance and highway pro-

grams have combined to remove variously estimated (100,000 to 250,000) housing units per year. This number of withdrawals from the nation's housing supply should increase in coming months and years.

» Fourth, the rise in income generally and the accompanying movement of hundreds of thousands of families annually into middle and higher income brackets provides a continuing strong base for actual purchase of homes. An income of at least $3,500 per year is necessary for the purchase of a minimum type dwelling under current cost-price-financing conditions. The typical 1957 home, selling for slightly under $15,000, regularly requires an annual income of $6,0000-$7,000. During last year, roughly 1,500,000 additional families moved into the minimum home buying income brackets, and another 1,500,000 families advanced financially to the point where they could afford a home in the average current price bracket. These families with higher incomes provide an important potential "plus" to the home buying market aside from mere population and family trends.

» Fifth, the level of new homebuilding has increased political significance because better homes are of rising interest to voters and changes in building activity directly affect the health of the national economy. Liberalized government policies can be expected to bolster homebuilding somewhat during periods of reduced demand. The politically acceptable minimum level of new homebuilding obviously cannot be precisely stated, but may be close to one million units per year.

Yes, the underlying forces of home demand are still strong, but quite obviously some retarding influences on new housing have been apparent in recent months. Among them are:

» First, the urgency to buy has been sharply reduced by the increased availability of housing units. Leaving completely aside the *quality* of homes, the national vacancy rate among single family homes (available for rent or sale for year-round use) has climbed from 1.6 per cent in 1950 to a level somewhere in the range of 3 per cent at present. This is still well below the 5 per cent rate which was considered "normal" in the prewar decade. Nevertheless, there is now definitely a better balance between housing supply and demand. Wider range of selection in new homes itself tends to slow up actual buying, if only because prospective purchasers take much more time to shop around before making a final decision. The slightest evidence of price concessions by builders and others also increases the amount of shopping.

"The principal reason for expecting far-reaching changes is that a new 'era' of selling *is getting underway following the prolonged 'era' of shortages. Moreover, it seems fairly certain that much easier credit will not be readily available to cover any further substantial increases in the cost of building. Hence, the building industry faces a fundamental challenge to find and introduce new ways of giving the public still better values. It seems a fairly safe bet that the house and other buildings of tomorrow will be strikingly different from most of those being built today."*

» Second, many older homes are becoming more difficult to sell. This development directly affects new homebuilding because many families wanting a new house are finding that they have less equity in their older house than expected and hence less cash to finance a new purchase.

» Third, construction and mortgage credit is widely recognized to be tighter than at any time since the end of World War II. Here is a powerful deterrent contributing to the current slackening in new homebuilding. There may be disagreement regarding the precise degree to which general monetary restrictions have hit new homebuilding, but no one can question that the impact of such policies has been severe, perhaps more so than in the case of any other major industry.

Tight money in the housing field involves primarily non-competitive interest rates, but also availability of funds. The last vestiges of war-time price control set interest ceilings on government backed mortgages. The result is that in the face of generally advancing interest rates these mortgages have become unattractive to investors. In addition, investment managers are finding such tremendous demands for short-term funds from businesses, government, and farmers that mortgages, even at higher rates, seem less attractive, especially considering their longer maturity and complex administrative procedures and related costs.

» Fourth, closely allied to financing difficulties, many building costs, including land, have edged upward to the point where numerous prospective buyers have been "priced" out of the market. The average new house selling price has increased about $2,500 during the past two years, reflecting somewhat larger units but also sharply higher costs.

» Fifth, although net new family formations are no longer considered a very reliable barometer of short-run homebuilding demand, it is significant to note that the postwar peak in marriages was reached several years ago. Current prospects are for little or no upturn in family formations for three to five years. In short, the nation is experienceing a plateau in family formations of about 700,000 to 800,000 annually, reducing the pressure for additional housing compared with the situation a few years ago.

Returning to the first question raised here—is the recent decline in new homebuilding a sign of temporary weakness or a signal that the housing boom is over—the answer pretty definitely is that homebuilding has

reached a new "normal" level around one million new starts per year which seems likely to persist over the coming year and quite probably during the remainder of the decade. This compares with a level of new starts of 1,100,000 in 1956 and 1,300,000 in 1955.

Somewhat easier credit conditions are to be expected for political reasons alone whenever new housing starts sag much below an annual rate of one million units. Short of considerable political stimulus, however, the rate over the year ahead is unlikely to rise much above the one million level, either. Experience shows that whenever the homebuilding industry experiences an important decline such as during the past year it takes considerable time for builders and others to reorganize to build a much larger number of units. Continued heavy demands for funds generally will keep government-guaranteed and other mortgages at a competitive disadvantage in attracting money for investment. It should be kept in mind, however, that amortization and interest payments on all outstanding home mortgages are already providing a huge pool of funds for potential reinvestment in new homes. At present mortgage repayments are running at an annual rate of roughly $15 billion, or essentially the volume required to build one million new housing units should these funds be used entirely for these purposes.

In short, the peak of the postwar boom in new homebuilding now seems pretty clearly to have been passed, but a relatively high level of activity, measured by all but the top postwar years' experience, still lies in prospect.

How much longer will the boom in commercial, educational and other non-residential building last?

Generally speaking, there is still enormous strength in the non-residential building field. A new record level will be set in 1957 at least slightly ahead of last year. A crest in commercial building, especially among shopping centers, office buildings, and related structures, however, is likely to become evident within 12 to 18 months. By that time, much of the "catching up" in commercial building caused by unfavorable depression, war, and postwar conditions will have been accomplished.

The need for additional educational structures continues to be acute in most areas. While the grammar school space problem is far from solved, the newest classroom pinch is beginning to occur in junior high and senior high schools as the "war babies" reach their teens. Tight money is discouraging some educational building projects, but the need is so great that further moderate increases in school building are definitely in sight for 1957.

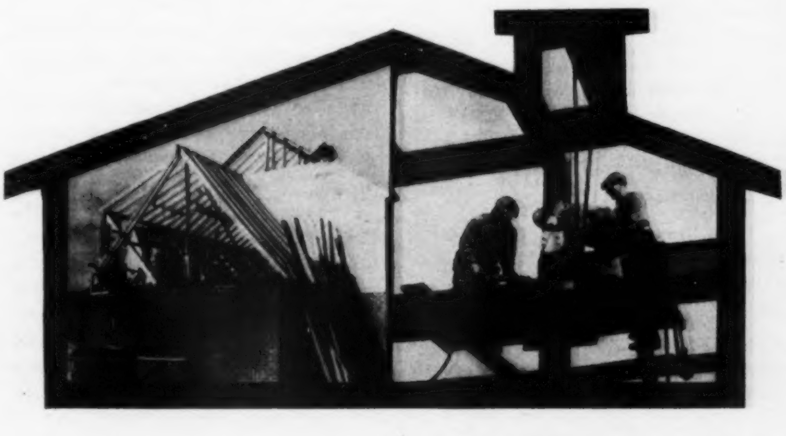
Manufacturing plants are currently being built in record numbers, and this rising trend is expected to persist well through this year. American industry will bring into production more new industrial capacity during the coming year than in any comparable period in history. Some scattered cutbacks in industrial capacity plans, however, are now being reported. Understandably, some managements seem increasingly concerned that the output from these new substantial additions to capacity be sold before undertaking further major expansions. This is not to say that any imminent decline in industrial building is in prospect, but further increases from current record levels during the coming year probably will be small.

In short, the outlook for non-residential building this year continues to be bright with a slightly (5 per cent) larger volume expected than in 1956.

What important changes in build-

(Continued on page 27)

THE peak of the postwar boom in new homebuilding now seems pretty clearly to have been passed, but a relatively high level of activity, measured by all but the top postwar years' experience, still lies in prospect. How much longer will the boom in commercial, educational and other non-residential building last? Generally speaking, there is still enormous strength in the non-residential building field. A new record level will be set in 1957 at least slightly ahead of last year. A crest in commercial building, especially among shopping centers, office buildings, and related structures, however, is likely to become evident within 12 to 18 months. By that time, much of the "catching up" in commercial building caused by unfavorable depression, war, and postwar conditions will have been accomplished. The need for additional educational structures continues to be acute in most areas. While the grammar school space problem is far from solved, the newest classroom pinch is beginning to occur in junior high and senior high schools as the "war babies" reach their teens. Tight money is discouraging some educational building projects, but the need is so great that further moderate increases in school building are definitely in sight for 1957.



It's a Question of

REGARDING the factors that have caused the congested condition that exists in the mortgage market, my personal opinion is that an effort has been made to build too many housing units too fast, and that this construction has been financed with loans that are completely unrealistic with respect particularly to down payments and length of maturities.

G. D. Brooks

I have repeatedly made the statement that we could not expect to build, finance and sell one million or more new housing units each and every year without bringing about a financial crisis. The continued attempt to do so has now caused a financial crisis insofar as the real estate mortgage market is concerned.

Everyone concerned must shoulder his share of the blame for the conditions: members of the Congress who passed the legislation that helped create a housing boom, the various organizations who sponsored the legislation, homebuilders who created millions of housing units without real regard to the sound demands of the market, mortgage companies who attempted to convert to mortgage "factories" turning out loans on an assembly line basis, and last but not least, institutional investors who supplied, or agreed to supply, the necessary money even to the extent of committing funds expected to be received many months in the future.

We can agree that a monster has been created, and the question now involved is what can be done with it.

» I believe members of Congress should consider legislation pertaining to government guaranteed and insured loans from the standpoint of the development of a housing program rather than a welfare program.

» I believe that organizations which sponsor housing legislation should consider selfish interests to be secondary to the public welfare.

» I believe homebuilders should adjust their production of houses to the real demand of the buying public.

In determining real demand, it is necessary to consider the willingness and ability to pay on the part of prospective home buyers and the willingness and ability to lend on the part of investors. Probably everyone has a desire for a 1957 Cadillac, but I believe General Motors officials will be smart enough to base the 1957 production of Cadillacs upon the willingness and ability of the public to purchase and finance automobiles in that particular price range and not simply upon the desires of the public.

Mortgage companies have had a "field day" for more than ten years because of the investor's desire for loans that provided a better yield than that obtainable from bonds and other forms of investments available to financial institutions. To say that the picture has changed is to make the understatement of the year, and the mortgage banker who continues to obligate himself to make loans without having covering commitments from his investors is engaging in a very hazardous enterprise.

Certainly this is no time to talk of recommending changes in State laws to permit conventional loans to be made in amounts equal to 75 per cent or 80 per cent of current construction costs. Neither is it the time to talk of reducing down payments on government guaranteed and insured loans, although this action was taken not long ago by FHA. The time to talk of such actions is when there is an excess of funds available for investment over the supply of available investments and not when the reverse is true.

Prior to last September 20, the only market available for FHA loans with the minimum down payment of 7 per cent was at prices substantially below par. On September 20, the minimum down payment requirement was reduced to 5 per cent. The logic of that move at this time seems questionable, to say the least. Certainly loans with a smaller down payment will not prove to be more attractive to investors.

Life insurance companies have supplied a very large portion of the funds that have been required to make the United States the greatest nation of homeowners the world has ever known and to finance the development of an economy that has brought a better way of life to millions of people. I do not think we are being too presumptuous in taking some credit for the part we have played in these programs. In our eagerness to secure investments, however, we may have, to some extent at least, encouraged construction and expansion programs that cannot be financed over a considerable period of time without resorting to inflationary measures. I am afraid that some of us have allowed our forward commitments to get out of hand to the extent that bank loans for "warehousing" purposes are being required for amounts and periods of time that may cause a further strain on the banking resources of the country.

This is not a plea for the banks. Construction loans and "warehouse" loans have been sources of very profitable business to the banks, and bankers should not complain about carrying their share of the load in these fields at the present time. On the other hand, I do not feel that we should place ourselves in the position of asking banks to pull our chestnuts out of the fire.

It is admittedly difficult to operate a mortgage program on a large scale without either causing too many loans

f TIGHT MONEY OR LOOSE INFLATION

by **G. D. BROOKS**

This is an institutional mortgage investor looking at the mortgage investment picture today. His overall conclusion: we have a financial crisis and, basically, it is the result of trying to go too fast and do too much in recent years. To attempt to build, sell and finance a million housing units year after year was bound to bring a crisis—and we have it. Now, how to get out of it? The government ought to make its sponsored programs what they are supposed to be—housing programs and not welfare programs. Homebuilders must readjust their production to demand and demand only. There are a great many more recommendations by Mr. Brooks as he made them to the American Life Convention, and they add up to a timely appraisal and interpretation of present-day problems in our industry. Mr. Brooks is vice president of The National Life and Accident Insurance Company of Nashville and a well-known figure in the mortgage investment field.

to be submitted for closing at a particular time, or causing funds to remain idle awaiting closing of loans for which commitments have been issued. Financial officers are paid to solve such problems, however, and it seems we should be able to do so without finding ourselves "locked in" with commitments we cannot reasonably expect to close for a period of more than one year.

Until comparatively recently, life companies had two choices:

» They could invest a very substantial portion of their funds in mortgages, or:

» They could suffer a gradually reducing rate of return on their investment portfolios.

Today we can pick and choose our investments, and all types provide very satisfactory interest returns. In this buyer's market, however, we should not overlook the fact that mortgages still offer very attractive features to investors. Some of the features are:

» When properly made, both conventional loans and Government guaranteed and insured loans provide a high degree of safety of principal.

» Loans made on regular amortization plans provide increasing equities in the security properties and also provide a steady source of funds for reinvestment purposes.

» Prepayment provisions of conventional loans can be controlled by the investor.

» Mortgage loans possess a reasonable degree of marketability under normal conditions.

Many of us in the life company field have fought for years to secure improvements in the insurance features of FHA loans and some results have been secured. In reappraising mortgage loans as investments for life companies, it might be well to consider the following changes in the insurance provisions of FHA Section 203 loans, all of which are beneficial from the standpoint of the investors:

» The interest rate on debentures received in event of foreclosure is now determined by the average effective yield at which long-term Treasury bonds are selling at the time the loan is insured. The debentures have a maturity of 20 years.

» A more realistic foreclosure expense allowance is provided for loans now being insured.

» "Waste charges" are limited to a maximum of $100 per housing unit in connection with loans now being insured.

» Certain Certificates of Claim issued by FHA to cover any losses to the investor not covered by debentures have a greater potential value under provisions of the current National Housing Act.

The principal remaining weakness in FHA and VA loans is the lack of a provision for a flexible interest rate that can be adjusted to meet changing conditions in the general money market. By fixing the maximum interest rate allowed under laws and regulations, the way has been opened for the evils of the discount system in mortgage lending. It is inconceivable to me that the question of flexible interest rates for FHA and VA loans requires any further discussion in view of the chaos that exists in the market for these loans at the present time.

There is no legitimate need for the operation of two huge and separate agencies for the administration of government guaranteed and insured loan programs. I have been very much interested, therefore, in recent proposals made in Congress that the activities of the VA loan program be merged with FHA. I only hope that something can be accomplished in this field within the near future, and that taxpayers will be saved the unnecessary expense of operating both agencies.

We have heard expressed and implied threats that unless private investors furnish mortgage funds in amounts necessary to keep the construction industry operating at a high level of activity the Federal Government must and will enter into a large scale direct lending program. I dislike threats, and I do not believe institutional investors can or should do business with a pistol at their heads, particularly when the investment of trust funds owned by others is concerned. I sincerely feel, however, that we must bear our share of the responsibility in attempting to solve the problems caused by the current shortage of mortgage money.

As of July 31, 1956, 49 United States life companies representing 86 per cent of total assets of all U. S. companies owned mortgages equal to 32.4 per cent of assets. I think this percentage could be considerably higher, particularly when the rather rapid required amortization provisions are considered. Many companies must necessarily curtail their mortgage purchases for the time being, and some companies may be required to temporarily pull out of the market entirely, but a reasonable "breathing spell" will cure this condition. By continuing to purchase mortgages within the limits of sound investment judgment we can make a contribution to the general economy of the country and make excellent investments at the same time.

We should vigorously resist any temptation to take undue advantage of the "tight money" situation that exists today. Any efforts to purchase government guaranteed and insured loans at extreme discounts or to make conventional loans at very high rates, and under severe terms and conditions, will be a very definite mistake. Such practices will only serve to create an unfavorable public opinion in the future.

I have no quarrel with the present restrictive policies of the Federal Reserve Board. In a period of tremendous expansion of business activity and the attendant demand for capital funds, we must have either "tight money" or "loose inflation," and no person with any knowledge of history or economics would suggest the latter course. I think that every one concerned with the general welfare of our country owes a debt of gratitude to the Federal Reserve Board. The Chairman and members of the Board have proved their wisdom and integrity in these trying times.

Contrary to statements of politicians the Federal Reserve Board has not made money "tight," but the old economic law of supply and demand has caused this condition to exist. The simple fact is that the demand for funds, not only for housing but for the greatest peacetime capital expansion in history, has far exceeded the savings of the country. The Federal Reserve Board has simply refused to take the easy and politically expedient way out of this situation by making credit easier through the expansion of available bank credit.

Unless and until there is some downward trend in general business activity I can foresee no decrease in the demand for loans, and consequently can foresee no reduction in interest rates within the near future. Nevertheless, I do not believe that money will become unavailable to borrowers seeking loans for productive purposes. Additional savings can be created and attracted to investment markets through attractive interest rates and terms of mortgages and other forms of investments.

Looking at the picture from the standpoint of the institutional investor I think we will make a mistake if we assume that the business cycle theory is a "dead duck" and that we can and will continue indefinitely to do business under boom-time conditions. I strongly suspect that we will be happy in the future with mortgage loans made at rates and terms available today.

To summarize my views of the mortgage picture today:

» The tremendous increase in mortgage holdings of life companies is ample proof of the willingness on the part of the companies to purchase real estate mortgage loans to the fullest extent of their financial capacities.

» The demand for mortgage funds is greater today than the available supply of funds. This situation has been caused by the tremendous housing program of the past ten years coupled with the huge expansion of the general economy.

» The Federal Reserve Board has not brought about the "tight" money situation. The Board has simply refused to resort to "easy" money policies.

» The limited availability of mortgage funds did cause some reduction in home construction in 1956 and the same will hold for 1957. This necessary "breathing spell" may be healthy for the building industry and the general economy in the long run.

» It is not considered possible to correct the "tight" money situation quickly without resorting to inflationary measures which will prove to be disastrous.

» The logical answer to the problem lies in making every effort to cause an increase in the rate of savings of the country. Reasonable rates and terms on mortgages loans will serve to cause an increase in savings and to attract a substantial portion of the increase to mortgages. The first step in this direction should be to remove the inflexibility of interest rates of government guaranteed and insured loans.

» Mortgage loans made at rates and terms available today will prove to be very satisfactory investments for life companies.

BUILDING IN TRANSITION

(Continued from page 23)

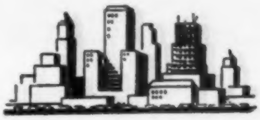
ing can now be foreseen which investors and others should watch?

Let me summarize the evidence that the building industry is entering a transition period: Shortages are rapidly disappearing; repair and modernization work is moving up steadily, but also is competing with new homebuilding; non-residential building continues to expand moderately but residential building has receded to a more "normal" level. Another good—yes, another record—year for over-all building is in prospect for 1957. But the coming year, and several more ahead will witness important changes which should be taken into account in appraising the building industry outlook.

The principal reason for expecting far-reaching changes is that a new "era" of *selling* is getting underway following the prolonged "era" of shortages. Moreover, it seems fairly certain that much easier credit will not be readily available to cover any further substantial increases in the cost of building. Hence, the building industry faces a fundamental challenge to find and introduce new ways of giving the public still better values.

It seems a fairly safe bet that the house and other buildings of "tomorrow" will be strikingly different from most of those being built today.

First, to an increasing extent structures will be built or assembled from complex fabricated "components" rather than by the use of a myraid of small pieces of materials erected on the job-site. Prefabrication will make steady gains, but substantial progress and acceptance await new designs and materials which will afford important savings other than the differential between the cost of factory and on-site labor.



Second, style, comfort, and easy maintenance will assume still greater importance. Model changes, virtually absent during the period of housing shortage, will be made frequently, along lines now well established in the automobile and other industries. As a result, obsolescence will have a progressively greater impact upon existing housing values and equities than ever before.

Third, numerous financing bottlenecks will gradually be eliminated. More flexible interest rates on guaranteed mortgages may well find official approval. The open-end mortgage will gain much wider acceptance and make possible the financing of home improvements to keep many more dwellings up-to-date. The flow of investment funds into mortgages will be expedited by more effective means of assembling mortgages and converting them into more attractive investment securities. The trade-in house idea will get increasing attention and make an important contribution to the owners' present problem of disposing of one home while buying another.

Fourth, repair and modernization will be generally recognized by builders as offering a large profit potential. The needs of the fix-up market will be met by a more satisfactory local "package" program which the consumer can buy with confidence.

But, don't misunderstand what I am saying. I'm *not* predicting an upheaval in the building industry just ahead. Things just don't happen that fast, particularly in an industry which is as far-flung as building. What I am saying is that changes are inescapable and that they can be expected to occur more rapidly during the next few years than ever before because a new "era" of selling and merchandising is underway.

For investors, all this simply means that building continues to offer great promise in 1957 and in the years beyond. But, like almost every other industry these days, the most promising prospects must be found on a selective basis.

MOST SIGNIFICANT DEVELOPMENT IN U.S. IS CHANGE IN ITS POPULATION

THE most constant—in fact the most universal—characteristic of population is change. If the change appears to be an orderly one, marking a tendency in a given direction over a considerable period of time, it is called a trend. Within each major trend there are usually several minor ones, some complementary, some contradictory, and some neutral in their effects.

During the hour you are reading this the hard-working stork will deliver 480 new prospective customers. By this time tomorrow, his asembly line will have turned out 11,520 new prospects. His back order list is astounding. He must deliver about 4,205,000 by a year from today. Cupid has slowed down quite a bit since 1947 and isn't expecting to put on an extra shift until about 1961 when the war babies start marrying in large numbers.

Besides Cupid and the stork, there are some other trend-makers at work. Within the next hour, the Grim Reaper will cut down 171 of your old customers. By this time tomorrow he will have "rubbed out" 4,104. By a year from today he will have removed 1,498,000 old customers. Even at that the Grim Reaper's toll has greatly lightened and continues to lighten.

Immigration adds 30 consumers an hour, 720 per day, or around 262,800 per year to our markets, while we lose 3 per hour, 72 per day or 26,280 in a year as emigrants from the U. S.

If we tote up the plus and minus scores of the five trend makers I've mentioned, our net population increase, at present rates, is 336 per hour, 8,064 per day, and roughly 2,900,000 per year. That's adding the equivalent of an Ireland, or three Costa Ricas or over five Hawaiis a year to our population!

The longer-range population trends, combined with income trends add up to a future which ought to convert even double-dyed economic hypochondriacs into optimists or reasonable facsimiles thereof. I hedge that with only one if—if management, labor and government use even a modicum of their joint intelligence, and combined effort. Population is the first element of a nation's growth and worth, provided that population has the social organization, machines, power, capital, access to raw materials, and the urge to be economically productive.

The most significant of all our population statistics is continued growth. Our population has doubled in the last half century in spite of the "lean" rates of that period. From a low of 16.6 births per thousand of population in 1933 we reached the highest peak in 25 years with a birth rate of 27.0 in 1947. This high rate was the result of military demobilization. The rate at midyear of 1956 was 23.8. Decreasing death rates over the same period have made a substantial contribution to our growth. Immigration over the past seven years has added an annual average of about 220,000 to our members.

Since 1950 our population has increased by 17,627,000, the equivalent of six Irelands or more than a Canada. We passed the 168,000,000 mark in June of last year. Between now and 1965 there will be a Thailand or a Canada plus a Denmark added. By 1975 there will be 220,800,000 of us, an increase of 31.2 per cent over 1956.

Far more couples today are having second, third, fourth and fifth children. The family pattern is definitely changing. Comparatively new small houses are bursting at the seams.

Marriages were the highest in our history in 1946 when they numbered 2,291,045. Our marriage rate has declined from 16.4 per thousand of population in 1946 to 9.0 last year, but there were still over a million and a half marriages in 1956. Of our population over 14 years of age, 69 per cent are married as compared to 60 per cent in 1940 and 53 per cent in 1890. Marriages will show little or no increase between now and 1961 or 1962 due to the low birth rates of the '30's. By 1962, the abnormally large "war baby crop" will begin to marry and establish homes in large numbers.

The number of new households established each year is now going down slightly, also due to the low birth rate of the '30's, and will continue to decline a little until about 1960, then increase greatly. There are approximately 49,300,000 households, an increase of almost a million over a year ago. Beginning with the '60's, the increase should be a market gold mine, with the marriages and new households of the war baby crop. Households, not individuals, are customers for most types of consumer goods.

Even the Grim Reaper is on our team. We have added over 31 years to our male and over 36 years to our female life span since 1850. A white boy born in 1960 will have a life expectancy of 69.6 years. His sister's expectancy will be 77 years. That increased life expectancy and decreasing mortality rates add greatly to the richness of our market is an obvious, but often overlooked, fact. Adding 30 years to the time a customer buys, with higher purchasing power in the mature years, is better than was adding a new customer in our grandfather's market.

The population over 65 years of age increased a third between 1930

Small wonder that American industry views the long-term future with such smug confidence—the people of the U.S. will be available in sufficiently larger numbers to insure a far greater prosperity that we have ever known in the past. One day this coming spring, there will be 170 million in this nation—a full 10 million more than our population of only three and one-half years ago. And some day this coming summer, there will be 50 million separate households—nearly 7 million more than there were as recently as 1950. Every eight seconds, a new American is born; every morning, there are 7,500 more mouths to be fed; every year, we are adding to our population the equivalent of a new state of Maryland. And there's no sign that we're nearing the peak of the cycle—a cycle which has confounded the predictions of the experts, astounded even the most optimistic about our country's growth. Mr. Reed is a student of the subject and a vice president of J. Walter Thompson Company, largest U.S. advertising agency, a business where the emphasis is on relying on facts such as he has put together here.

***By* VERGIL D. REED**

and 1940 and another third between 1940 and 1950. Those over 65 will number 15,800,000 by 1960 and make up to 9.2 per cent of our population compared to 2.9 per cent in 1870. There are today about 21,330,000 people over 60 years of age. These elders are a far better market than those of previous generations.

In 1955 there were 64 per cent more children under 10 years of age than in 1940, but there were also 53 per cent more elders over 60. In the five year period 1950-55, the number of children under 15 years increased by 8,000,000 and accounted for three-fifths of the total population increase. The population 15 to 29 years of age declined by a million.

The proportion of our population on farms has decreased from 95 per cent at our birth as a nation to 13.3 per cent today. The trend from the farm will continue indefinitely. About 22,257,000 people now live on farms compared to over 25,000,000 or 16.6 per cent of the population in 1950. Mechanization, electrification, better, fertilizers, better seeds, better feeds and better methods have vastly increased the productivity and purchasing power of farmers. This increase in purchasing power far more than offsets the numerical shrinkage in farmers.

America is going suburban, and rapidly. This trend has been quite marked since 1920. Cities of all sizes are suburbanizing.

More than half the nation's population now lives in 168 metropolitan areas which include only 275 or 9.1 per cent of the total counties in the country. Within their boundaries lie: (1) four-fifths of our total population increase of the last decade; (2) almost two-thirds of total retail volume; (3) about nine-tenths of our national wholesale volume.

A look at what is happening inside these metropolitan areas is particularly significant. While the central cities as a group increased their population by 13.9 per cent the "remainder of the areas" (the suburbs roughly) increased 35.5 per cent in the 1940-1950 decade. Nearly half our total increase in population during that decade was in these suburban areas. During the past several years, this trend to the suburbs has been at a much faster pace. For instance, between 1950 and 1955 the population of the metropolitan areas increased roughly 11,500,000. Of that increase, 9,600,000 were in the suburbs. During the same five years our total population outside the metropolitan areas increased only 300,000. In other words, 97 per cent of the total population increase for the five years was in the metropolitan areas. In the corporate cities of the areas, population increased only 4 per cent while it increased 28 per cent in the suburbs.

Far over half of the new homes built in the nation since the war have been built in the suburbs of those 168 metropolitan areas. The middle income families, and particularly the

THE longer-range population trends, combined with income trends add up to a future which ought to convert even double-dyed economic hypochondriacs into optimists or reasonable facsimiles thereof. I hedge that with only one if—if management, labor and government use even a modicum of their joint intelligence and combined effort. Population is the first element of a nation's growth and worth, provided that population has the social organization, machines, power, capital, access to raw materials, and the urge to be economically productive. The most significant of all our population statistics is continued growth. Our population has doubled in the last half century in spite of the "lean" rates of that period. From a low of 16.6 births per thousand of population in 1933 we reached the highest peak in 25 years with a birth rate of 27.0 in 1947. This high rate was the result of military demobilization. The rate at midyear of 1956 was 23.8. Decreasing death rates over the same period have made a substantial contribution to our growth. Immigration over the past seven years has added an annual average of about 220,000 to our members.

Last year—even though preliminary figures only are available—seems to have been a big one for the stork with about 4,202,000 births. That would indicate a gain of 110,000 over 1955, or about 3.3 per cent. That's 25 babies for every 1,000 people—not a record but the third best showing in this department in the past 16 years. Of course, as the author points out, some considerably bigger years are ahead in this department.

younger ones with children, are heading for the suburbs. Their incomes exceed the national average considerably. Home ownership among them is particularly high.

Americans literally live on wheels. A year from today about 31,000,000 people will be living in a different house. Of these, over 20,000,000 will move to another house in the same county. Over 5,000,000 will move to another county in the same state. Over 5,000,000 will move to another state. Losses and gains of population are very unevenly distributed and require constant study. Prospects and customers can't be reached where they were but only where they are.

There are at least five different kinds of migration at work. They are:

» The decided movement toward the West and the South;

» A strong and accelerating decentralization movement from the cities to the suburbs;

» Migration of farm population to the cities—then apparently from the cities to the suburbs;

» Immigration toward the sea coasts and "recreation" areas; and "treasure hunt migration"—better jobs or opportunities are lodestones which many against or across one or more of the four strong and definite currents already mentioned.

One third of our population at the last Census was born outside the state in which they were living in 1950, but only 2 out of 9 of these migrants were born outside the United States. Each year during recent years about one-fifteenth of our total population moves to a different county.

Our population is gaining in educational level at a very rapid pace. There are already 90 per cent more high school graduates in our adult population than in 1940. Today approximately 7,000,000 of our people have four years or more of college education. This is two and a third times as many as in 1940. Roughly as many more have from one to three years in college. Both the numbers and the proportions with higher education will continue to increase. Our cultural, as well as our material, standard of living is increasing.

There's far more leisure time for both farm and factory workers. In fact, our average workman has over 1,000 hours more leisure time per year than his grandfather had. This will increase by another 200 hours by 1965.

MONEY ISN'T TIGHT ENOUGH TO CAUSE A BUSINESS RECESSION—NOW, THAT IS

THE long bear market in bonds which began in 1946 appears to be approaching its climax and the turning point may not be far ahead. It is, of course, possible that before the absolute lows are recorded the bond market will experience a further decline but any decline from this point should be shortlived. The end of the long bear market in bonds is not likely to be far away because the forces responsible for it are weakening and a new set of supply-demand pressures should become operative in the money markets. While the beginning of any pronounced bull market in bonds may well be delayed for a period and in its earlier stages the rise in bond prices may be very slow, the long-term trend in bond prices over the next decade is probably going to be toward higher levels—with, of course, lower bond yields and interest rates.

Murray Shields

The basic factors responsible for the long bear market in bonds are all connected with World War II, i.e., postwar inflation based on the huge emissions of currency and bank deposits during the war, the colossal requirements for funds in the postwar years to fill the backlog of demand for plant capacity, housing and community facilities, the postwar bulge in family formation and the inevitable return to more orthodox monetary policy after the artificially easy money and pegged interest rates of the New Deal and the war years.

The prospect that we are nearing the end of the bear market in bonds —and of the rise in interest rates and bond yields—is supported by several fundamental considerations:

» The rate of family formation has receded and it is not likely to rise materially for several years because the number of individuals reaching the marriageable age brackets must reflect the low levels of births in the late '30's.

» The backlogs of demands accumulated during the long depression and in the period of wartime restrictions and controls have been or shortly will be completely filled. In addition, our raw material capacity and manufacturing capabilities have already been expanded sharply to provide a handsome inventory of completely equipped and furnished new homes, new automobiles and new community facilities for our new families and for the millions of families which have experienced a spectacular rise in their incomes. The demands for capital during the period when we were simultaneously building capacity and expanding our stocks of goods of all descriptions in the hands of the people were understandably very heavy.

» We have finally grown-up-to—or inflated-up-to—the wartime expansion in our money supply which reduces the threat that the use of such liquid funds by their owners could produce an inflation not subject to control by the monetary authorities. The only kind of inflation we need fear today is wage inflation and it is probable that in the years ahead, public and private pressures will be brought to bear on the unions to hold their de-

By **MURRAY SHIELDS**

Money is scarce all right, but not so tight that it will start a business decline. But if it gets much tighter, it could well do just that. But, in that event, the present unparalleled demand for credit would drop some and thus money would get easier. All very simple, of course, but that isn't precisely Mr. Shields' main contention here. Rather, it is an explanation of what has happened in credit during recent times—for one thing we seem at last to have grown up to—or inflated up to—the wartime expansion of our money supply. Above and beyond all of these problems of the moment, Mr. Shields states his contention that we are living in the midst of a great technological revolution which is bound to lift our productive and consuming capacity far in excess of what we anticipate now. He is a well-known economist, formerly with the Bank of the Manhattan Company and now senior partner of Mackay-Shields & Associates, New York.

mands for wage increases to amounts which can be more nearly offset by improvements in productivity. Furthermore, if competition intensifies materially — as seems to be the prospect—management is likely to bargain much harder with the unions than it has during the past few years.

» With our money supply now fully in use, as is clear from the sharp rise in the rate of turnover of bank deposits, the general economic climate should before long be such that the Federal Reserve authorities will find it appropriate to provide the additional bank reserves necessary for the resumption of expansion in our money supply. Recently the expansion in money supply has deliberately been held in check but the Federal Reserve can in time be counted on to supply the money without which an adequate level of activity cannot be maintained in a growing economy.

» The rise already experienced in interest rates and bond yields has brought the structure of money rates into a far better balanced relationship with the overall supply and demand for funds than has been the case for many years.

» The structure of money rates and bond yields is now high enough to provide adequate incentive for savings so that slowly but surely the shortage of savings will be alleviated. Individuals and families, having moved to a new high in their possession of the economic amenities of life, can now emphasize the building of their financial security through increased personal savings and are given incentive to do so by the more attractive rates of return available on such savings. Corporations will probably depend increasingly on internally generated funds now that money costs and terms are more onerous and their debts in many cases are far higher than for many years past.

A room of fateful decisions—where the policies of the Federal Reserve Board are made. Mr. Shields, in company with practically all who understand monetary policies, does not quarrel with the firm determination of the fiscal authorities to take measures to avoid further inflation.

» We have in the past few years laid the foundations for great new financial mechanisms capable of increasing the rate of savings very substantially indeed. Reference is made to the mutual investment funds, to the pension funds and to the Federal Savings and Loan Associations. These organizations have grown at an accelerated rate. In the years ahead, they will generate tens of billions of new savings to provide the funds needed by our growing economy. Their future impact on supply - demand relationships in our money markets has been grossly underestimated by many observers.

» While the rise in money rates during the past year and a half has naturally produced much talk about "too tight money," "where the money is coming from to support progress and prosperity," and the "unvailability of funds for many borrowers," it must be recorded that our financial apparatus, in fact, generated more new funds last year than ever before in our history— which is a hopeful augury for the future.

» Money is not now tight enough to cause a near-term recession of business. However, if it gets much tighter than it is now, it could hardly help but result in a lower level of economic activity and, therefore, a reduced demand for credit. Paradoxically it would appear to be true that if money gets much tighter, it will then inevitably get much easier.

» The vast expenditures for plant and equipment during the postwar years, plus those contemplated for the year ahead, may well confront many industries with a situation where a leveling out or a pause in the expansion of capacity seems to be prudent or necessary. Any such development will, of course, reduce the demand for funds.

» Despite fears to the contrary, our banks will, over the years ahead, be able to supply considerable additional amounts of loan funds without impairment of their capital ratios. Higher interest rates will permit the banks to generate internally quite large amounts of new capital funds so that loans can be increased without impairing their capital—deposit and capital—risk assets ratios.

» With the international situation

having reached a stage of dangerous and uncertain condition, the outlook would seem to be for more war or more peace than we have had for some time past. If the threat of war increases, the whole structure of government and Federal Reserve pressures will, of course, be toward easier money with the application of non-monetary controls. On the other hand, if the present crisis results in a significant easing of international tensions, then some of the demand pressures in our money markets will probably be reduced.

The best working assumption as to the outlook for interest rates would appear to be:

» That the short and long term money markets are now or will in the next few months reach the high point of the long rise in interest rates and bond yields which began in 1946.*

» That the demand and supply situation as to money will, over the next few years, be such that interest rates and bond yields will remain far above levels of the days of easy money but moderately below the current position, and with the broad trend gently downward, and,

» That the future will bring quite wide short range fluctuations in money rates and bond yields. It is clear that at the first sign of a real recession in business, the Federal Reserve authorities will reduce reserve requirements so as to ease the bank reserve position vigorously. On the other hand, it is no less clear that during phases of business recovery and boom the Federal Reserve authorities will adopt severely restrictive policies to prevent wage inflation from degenerating into the sort of boom which could only end in a bust.

We are in the midst of a great technological revolution capable of lifting our levels of productivity, production and consumption to fantastic new highs in the decade ahead which can be, should be, and, in my opinion, will be a truly great era of economic growth. The two domestic threats to that achievement are inflation and/or inadequacy of savings. The picture of the outlook for money which has been drawn here is one which would support an extremely optimistic view of our ability to avoid a disastrous inflation—induced boom and bust cycle and to generate enough funds to finance soundly and safely a truly spectacular period of economic progress.

Mr. Shields, early in these observations, remarked that the only inflation we have to fear is wage inflation. More recently he has expanded that idea and now thinks the tight money market should be relaxed if we want to avoid wage inflation.

"Money should not be permitted to become so tight that business cannot obtain the funds needed for improving its cost position," he said.

"The Federal Reserve has gone about as far as it can in the use of monetary techniques."

He warned that while it is proper to prevent credit inflation from feeding the fires of wage inflation, "credit restraint will not stop wage inflation unless the restraining measures are so severe as to cause a serious business depression, which is, of course, an intolerable solution to the problem."

He said the Federal Reserve should ease up enough to assure that the money supply will exand by roughly 3 per cent so that commercial banks will have the reserves needed to expand commercial or mortgage loans by $5 to $7 billion without being forced to sell more than a moderate amount of their holdings of government securities.

"This can easily be accomplished if the Federal Reserve purchases a moderate amount of U. S. Government securities in the open market or if the reserve requirements of the banks are moved down a notch."

He labeled wage inflation as the 'most serious economic problem" facing the nation.

*They have gone somewhat higher since these observations were recorded.

How Long

HOW long will we have tight money — but, first, why tight money at all? Ask most business men why we have tight money and the answer will likely be that the Federal Reserve Board has made it tight. This is a popular misconception. Actually our money supply, as measured by demand deposits and currency in circulation, is higher than at any previous time in history. The mutual savings banks, savings and loan associations and the life insurance companies, have all established new high records in terms of the funds entrusted to them for investment. Pension funds which are an important source of capital accumulation are also setting new records from month to month. Finally, on the supply side, depreciation allowances and retained earnings of corporations, are now at new all-time highs.

Clearly money is not tight through a decrease in the money supply. Moreover, our dollars are doing extra duty through overtime work. The velocity of money has increased thus improving its efficiency as a medium of exchange.

Now look at the other side of the equation — the demand for money. Our economy is fairly bursting with enthusiasm, almost everyone is optimistic and feels secure in his job. People do not hesitate to buy anything they want providing they can borrow the money and the monthly carrying charge fits the budget. Total consumer credit stands at over $40 billion, a new all-time high although the rate of increase was slower in 1956 than in 1955. About 1,100,000 new homes were constructed last year, a reduction of 200,000 from 1955. The reduction took place mostly in the lowest cost houses and with rising prices the 1,100,000 cost almost as much as the greater number that were constructed and furnished in 1955; and the demand for residential mortgage credit is still very high.

The sale of 1956 automobiles and trucks was down from the preceding year by about two million units. It was a big year, however, by any standards prior to 1955. The industry expects to regain its stride with the new restyled 1957 models but it is yet too early to know how well they are going to sell throughout the year. In any event we may expect a volume of sales which will produce a high demand for credit.

Business expenditures for plant and equipment probably amounted to $35.3 billion for the full year. This is an increase of $6.6 billion over the 1955 rate.

Superimposed on all this private activity the Federal Government is spending on the military establishment for manpower, jets, guided missiles, H bombs, etc., at a rate of $40 billion a year. We keep three million persons in uniform, thus depleting the civilian labor force of their services. The Federal Government is also engaged in legion other spending activities which carry the total Federal budget to $66 billion.

Finally in looking at the demand picture there remains the sector comprised of states and local units. Here the need for funds to build schools, hospitals, sewers, waterworks, etc., is overwhelming, as a result of our expanding population and movement to the suburbs.

So money is not tight because the Federal Reserve Board made it so nor because it is in short supply. Rather, the great demand for funds is the major cause. Money is tight simply because we have been trying to expand our consumption, our productive facilities and governmental services—Federal, state and local—faster than our capacities for doing so permit.

What the Federal Reserve Board has done, and rightly so, is to resist the pressure to interfere in the market, thus permitting the demand for funds to express itself in higher rates of interest. This is as it should be. By permitting the market to function as a regulator between supply and demand, higher interest rates under existing conditions will tend to dampen the demand for funds on the one hand, and, on the other, to stimulate savings.

People have been accustomed to low interest rates so long that they are taken for granted and are assumed to be normal. People seem to forget that for 20 years interest rates were deliberately kept at artificially low levels by pumping extra money into the credit system with the result that during those 20 years our dollar lost half of its purchasing power. The war, of course, was partly responsible. This was a frightful price to pay for the alleged benefits of low interest rates. The experience distorted our perspective. If we look upon existing rates as high we should recall those of the '20s when the discount rate fluctuated between a low of 3 per cent and a high of 7 per cent. By comparison rates today are still low.

What then has been the true role of the Federal Reserve Board in this picture? Money is in generous supply but tight resulting from an abnormally heavy demand. The Board did not generate this demand. Interest rates have risen because of competitive market forces, not because of Board action. Increases in the discount rate have followed and not led the market. In a sense the Board has taken a passive sideline position.

There is no doubt in my mind that the Board has the power, authority, facilities, and know-how to reverse this money situation overnight whenever it chooses to do so. To stay on the side lines has required a deliberate, calculated policy decision by the Board. In its judgment the market has for the time being all the money

g Tight Money?

By **RAY D. MURPHY**
Chairman, The Equitable Life Assurance Society of the U. S.

Indeed, how long—that's what everyone would like to know as the new year gets underway. We will have it so long as the demand for funds exceeds our rate of savings, so long as there is a shortage in our labor force, so long as the present rate of industrial expansion continues in the expectation of increasing profits. If you can supply the answers, then you know how long. One thing the tight money situation has created is this: a far greater appreciation of the need for flexible mortgage interest rates. There is no solution to this problem, says Mr. Murphy, unless these rates are freed from artificial controls. The increase for FHA is welcomed but what is needed is completely flexible interest rates—a position MBA has long supported.

and credit needed for substantial economic growth. Any additions to the money supply now would merely blow up the price level and further depreciate the purchasing power of the dollar by furnishing the means to increase the bidding for the materials and services already being fully utilized.

The further resort to credit expansion at this juncture would be certain to lead to instability. If because of tight money some demands need to be deferred, our prosperity should for that reason be more enduring. If I interpret the objectives of the Federal Reserve Board correctly, it is precisely to avoid the severity of the adjustments that have in the past followed unhealthy boom periods.

Now consider what changes, if any, are likely to bring about easier money.

How long can expenditures for plant and equipment be sustained at present rates? All surveys point to substantial outlays through 1957. The drive for new plant and equipment is accelerated by research work which is continually developing new processes and new products. It would require an investment of $136 billion to bring all of our plants up to date.

With rising wage rates, firms must adopt the most modern low cost methods or be hard pressed by competition. In effect this represents a substitution of capital for labor. Our growing population with good wages and more leisure time seems to have insatiable desires for goods and services. Eventually, if we keep building, plant capacity will outgrow its markets. We have a few industries such as textiles and farm machinery where capacity now seems fully adequate. Steel capacity by contrast is booked for months ahead.

The greatest danger to continued plant expansion is the wage spiral and the squeeze it puts on corporate profits. One of the scarcest things today is labor, using that word in its broadest meaning. Examine the want ad section of any daily paper and one will be impressed by the intense efforts being made by firms to raid each other's labor force. Incidentally the shortage of labor is not limited to the United States. Countries in Europe are experiencing similar acute shortages. There is no possibility of a sudden increase in the labor force. I see little relief from a tight labor market until the wartime baby crop reaches working age beginning about 1964 or 1965. A tight labor market adds tension to a tight money market.

Is there any possibility of abatement in the demand for consumer credit in the foreseeable future? I think not, at least so long as employment stays high. Many students regard consumer credit as posing an inflationary danger and have suggested that perhaps the Federal Reserve Board should be given stand-by controls to keep consumer credit within reasonable bounds. Industry spokesmen emphatically deny the need for controls. The amount of consumer credit outstanding at any one time does not tell the whole story. I think we have to worry more about its rate of increase and its timing with respect to other total expenditures being made in the economy. The extent to which it is financed by bank credit is one of the important questions.

This is an intriguing problem about which it is difficult to be dogmatic.

Some of my own views have been modified over the past year. The more I study the problem the more doubts I have as to the wisdom of adding to general monetary controls, a network of selective controls. They are really efforts to control production on a selective basis and a bit clumsy because the pressure is applied at the retail level rather than the production level. I am reluctant to travel this road for several reasons. First it takes supermen to determine what commodities and in what amounts are best for the economy. Would it not be better to leave such decisions to the impersonal functioning of the competitive market?

One control usually leads to another and once embarked down this road there is no stopping short of complete regimentation. Experience over the past 25 years with the Government's efforts to control agricultural production should be ample warning of the pitfalls and ultimate futility of this approach. I am of the opinion that we should attempt to keep down inflation through general monetary controls and only if that attempt fails should we go to selective controls as an act, if you will, of desperation.

The demand for mortgage credit for housing is a robust one. We have need for a million or more new units a year to house new family formations and to replace obsolescence. Also the building trade has a powerful political lobby continually pressuring Congress for more favorable credit treatment. When money is siphoned into some one activity by preferred legislation, the result is increased pressure on the balance of the money market.

The chief inflationary offenders in the mortgage market have been the several government agencies operating in the lending field: The Veterans Administration, the Federal Housing Administration, Fanny Mae and the Home Loan Bank Board. These agencies have made mortgage terms more liberal at times when the Federal Reserve Board was calling for restraint. I have heard of no criticism of conventional mortgages by nongovernment leaders. Congress and administrative agencies have tried to insulate the housing field against the rising interest market by fixing interest rates at an arbitrary 4½ per cent. As a result it has been impossible to sell such loans except at sizable discounts. This has caused housing starts to decline and the several Federal agencies are trying to restore volume by direct lending activities, which are frequently at cross purposes with Federal Reserve Board policy. The Board is being criticized by the building trades for a situation over which it has had little or no control.

I see no solution to this problem except to restore flexible interest rates on home mortgages. If rates were again made sensitive it would permit the housing people to compete in the money market on equal footing with other users of credit. The flow of funds again would be determined by market forces and the construction of new houses would be made responsive to normal housing demand. FHA has of course announced an increase in its mortgage rate to 5 per cent. Although the change is welcome, I still believe in flexible rates.

When the Hungarian people heroically cast off their shackles for a brief period in the fall, the free world stood in amazement. Could this mark the beginning of disintegration of the Russian satellites? What a glorious day if true! Unfortunately the time has not yet arrived. Again Russia is rattling the sabers and our country has no alternative but to continue heavy military expenditures, if we are to live in peace. Today it looks like increased pressure on the money markets for military purposes.

During 1956, states and localities borrowed about $5 billion. The calendar is loaded with additional pending issues. Voters approved new issues totaling $2.4 billion on election day. The tight money market and higher interest rates have impinged perhaps more heavily on cities and states than on any other class of borrower. Many urgently needed civic improvements such as schools, waterworks, roads, etc., have had to be deferred because of statutory restrictions on debts and interest rates. These hurdles will be removed. Certainly in the years immediately ahead demand from this part of the market will not diminish.

In this rundown of demand factors I find a vigorous free-wheeling, free-spending, dynamic economy. It has out-run the normal rate of capital formation and is confused and somewhat impatient with delays and obstacles that arise in its path by way of tight money.

Now for a quick look at the sources of supply. We have already indicated that savings have reached new all-time highs, but are still inadequate to meet the unusual demand for funds.

We should be able to achieve somewhat better results because of the im-

proving climate for savings. Higher interest rates will be a big help in getting the job done. We must be realistic, however, and admit that it will be a slow process to get people to save enough to meet our growing capital requirements. Perhaps even higher interest rates will prove necessary. In addition to higher rates people must have confidence that the purchasing power of their savings will be preserved. The record in this respect has been good since 1952 but price increases in recent months are again causing thoughtful people to wonder.

Savings have a tendency to dry up during periods of rapid price increases. In many countries where inflation has been more pronounced than here, some rather bizarre devices are being used in an effort to coax out timid capital. In Finland most savings banks offer their depositors a form of account where a saver gets 4¾ per cent interest, which is 1½ per cent below the prevailing rate on ordinary deposits but at the end of the year his account is credited with an additional amount which will restore its original purchasing power, as indicated by a cost-of-living index. Finland also has issued government bonds with purchasing power guarantees based on price indexes. The French nationalized railroad has sold securities whose return to the investor is tied to the price of railway tickets. A cement company in Palestine has sold debentures giving the investor the option of receiving payment in actual bags of cement.

Great Britain introduced what is described as a "premium bond." Under this plan investors are sold a bond on which there would be no regular interest payments but on which a sum equivalent to 4 per cent interest would be pooled and distributed as cash prizes to a few lucky persons selected at monthly public drawings. The opposition party has labeled this a lottery which is not quite accurate since the principal sum remains intact and only the interest earnings are left to chance. Russia, Sweden, Norway, Belgium, Italy, France, Greece, Denmark and Holland are all using a similar device, as a means of stimulating savings.

Men the world over have been active devising plans to protect themselves against inflation. In several countries insurance policies may be purchased with both benefits and premiums geared to a cost-of-living index. In this country escalator clauses in wage contracts seek to insulate the wage earner from the erosion of inflation. Suggestions also have been considered for escalator clauses in pensions and social security payments. The variable annuity which is being so hotly debated in this country is but another manifestation of the same effort to live with inflation. All these devices have the common weakness of treating the effects of the disease while ignoring or condoning the basic causes of inflation which are unsound fiscal and monetary policies of government.

Inflation is a dishonest hidden tax by which a government cheats its citizens of part or all of their savings. The cheating hits hardest the 40 million persons who own savings bonds, the 103 million persons who own life insurance policies, the 67 million depositors in time and savings accounts, 19 million shareholders of the savings and loan associations and 12.5 million who have pension plans of some kind, in short, virtually the entire population of the country.

How can there be any compromise with such a practice? If we follow these inflation hedges to their ultimate conclusion most everyone would be protected by a gimmick of some kind and in the process inflation would be given such impetus that the entire structure must collapse. Those who direct the affairs of our great thrift institutions have no alternative but to fight unsound monetary and fiscal policies at their source with every ounce of energy they possess. Fortunately we have no quarrel with the monetary authorities as now constituted and functioning. Our job is to see that they are permitted to stay on a sound course.

I am forced to the conclusion that tight money will not end quickly because of any substantial near-term increases in the saving habits of our people. We should use every means at our disposal, however, to get our people to increase their savings in order to reduce inflationary pressures in the economy.

What, then, are the possibilities of the Federal Reserve Board abandoning its position under heat of political pressure? The reelection of President Eisenhower by such an overwhelming majority gives cause for optimism. During the campaign he repeatedly pledged his office to support the continued independence of the Board and to give the country an honest currency. He does not control Congress, however, and while there are powerful groups among both Republicans and Democrats who hate inflation, there are still minority groups who dislike tight money, groups who put po-

litical expediency or personal gain ahead of national welfare. Herein lies our greatest danger.

A prominent speaker* at the American Bankers Association convention recommended that a Cabinet level economic council be created to coordinate the monetary affairs of the Government. The purpose obviously would be to give the President authority to pass finally upon questions of monetary policy. This plan would destroy the independence of the Board and throw monetary policy into the maelstrom of politics. This recommendation overlooks the fact that the staffs of the Treasury Department and the Federal Reserve Board hold regular and frequent conferences at which time policy questions of both organizations are fully and frankly discussed. But following full disclosure each enjoys complete freedom to act as its good judgment dictates.

One can be certain that the Board thinks long and hard before moving contrary to Administration policy. Last May neither the Secretary of the Treasury nor the Chairman of the President's Council of Economic Advisers approved the timing of the increase in the discount rate, yet subsequent developments have fully supported the Board's position. In my opinion it would be meddling of a dangerous sort to impair in any way the independence of the Board. We have given them a tough assignment. The least we can do is to permit them to carry it out with integrity.

It has been claimed that tight money hurts the small businessman, the home buyer and the farmer while big business gets all the money it wants. This simply is not true. At the Equitable we have about $1 billion annually for new investments. In this period of tight money it has been our policy to take care of first, policy loans, which are contractural obligations, next our normal dwelling and farm loan business, then we accommodate all mortgage applications which meet our credit tests on loans up to $250,000 each. Above these amounts we try to take care of our old customers but frequently in reduced amounts. Last in line are new jumbo applications in amounts from $10 million and up. I know that several of the larger commercial banks are following essentially this same policy.

(Continued on page 41)

*Elliott Bell. See page 16.

MEETINGS COMING UP

Lead Off Event in MBA 1957 Series Is Philadelphia Servicing Clinic

THE first half of 1957 will be a busy meeting year for MBA with three Mortgage Conferences, two Mortgage Clinics, two Senior Executives Conferences and three Mortgage Servicing Clinics, scattered geographically over the country to serve the maximum number of MBA firms. The last half of the year is reserved for the School of Mortgage Banking at Northwestern and Stanford Universities and the annual Convention.

Lead-off event of the 1957 calendar is the initial Mortgage Servicing Clinic at the Bellevue Stratford Hotel, Philadelphia, January 17-18. This year the Mortgage Servicing Clinics will be two-day affairs following the success of the one-day experimental meetings in 1956. They are being organized by the Association's Servicing and Accounting Department, headed by Edward J. DeYoung in conjunction with the MBA Mortgage Servicing Committee, headed by Howard E. Meyer, manager of servicing, New York Life Insurance Company. The Philadelphia Clinic is in charge of A. A. Johnson, vice president, Colonial Mortgage Service Company of Upper Darby, Pennsylvania.

The entire first day is a work-shop session with no formal speeches. Included in the panel groups will be discussions of the latest developments in servicing and accounting for correspondents and investor and correspondent mutual problems. The emphasis will be heavy on audience participation.

The first day's session will feature a luncheon meeting, with President John F. Austin, Jr., as the speaker. Others who will address the group are J. J. Braceland, president, Philadelphia MBA; Thomas E. McDonald, vice president, T. J. Bettes Company, Houston; Edwin G. Callahan, chief counsel, Home Mortgage Section, FHA, Washington, D. C.; Roger W. Hatch, vice president, Walker and Dunlop, Inc., Washington, D. C.; L. K. Horn, controller, Lon Worth Crow Company, Miami; Thomas J. Melody, assistant treasurer, The Lomas & Nettleton Company, New Haven; P. N. Brownstein, assistant director for loan policy and management, VA, Washington, D. C., and W. W. Dwire, vice president, Citizens Mortgage Corporation, Detroit.

Howard Meyer

J. J. Braceland

A. A. Johnson

L. K. Horn

P. N. Brownstein

T. E. McDonald

E. J. De Young

Louis J. Rub

At the panel group discussion on the opening afternoon, at which Mr. DeYoung will preside, participants will include Mr. Meyer; Joseph L. Engleman, director of mortgage servicing, Mutual Life Insurance Company, New York; Louis J. Rub, assistant vice president, East River Savings Bank, New York and Allen C. Thomas, Jr., second vice president, The Penn Mutual Life Insurance Co., Philadelphia.

Following a reception by the Philadelphia MBA, this local group will present a dramatic presentation aimed at acquainting the audience with the terms, procedures and practices used in the origination and the closing of a typical mortgage loan. *(See page 42)*

The second day's session will feature something entirely new, a series of four round table discussions on specific servicing problems. Each of the four will be duplicated, enabling all those who attend the Clinic to catch at least two of the four Seminar sessions.

That afternoon there will be conducted tours to three distinct and different types of servicing operations—a complete IBM installation, a mechanical bookkeeping machine operation, and the country's only complete single credit type of operation.

The Friday morning session of the Clinic will be concerned with the four round table seminars: Collections, delinquencies and foreclosures; accounting systems, manual, mechanical and electronic; insurance; and new ideas and developments in servicing.

That afternoon there will be field trips to three mortgage companies.

At last year's servicing meetings many investors utilized the occasion as an opportunity to arrange regional meetings for their own individual correspondents. A larger group of investors is planning to do the same thing this year and it is an even better opportunity because of the enlarged scope of the meetings. The Philadelphia Mortgage Servicing Clinic is the most comprehensive effort the Asso-

ciation has attempted in this field and provides an unusual opportunity for investors and their correspondents to get together to look at their own individual problems.

The Clinics which will follow in St. Louis and Los Angeles are being organized on the same comprehensive basis.

Mailings for the Philadelphia Clinic are being sent to only those members in the eastern part of the United States. Any other MBA members wishing to attend should contact Edward J. DeYoung, Director, Accounting and Servicing, Mortgage Bankers Association of America, 111 West Washington Street, Chicago 2, in order to receive the program, registration and hotel reservation cards.

The servicing and accounting phase of the mortgage business has been growing steadily over the past ten years until it has now reached the point where most people recognize it as about the most basic and important part of a mortgage loan operation.

Present indications point to a larger and larger proportion of profits coming from the servicing operation, thus it is more important than ever to keep abreast of developments. Unlike the conferences and conventions, the servicing clinics are designed so that the money and time spent in attending will be immediately realized many times over by the labor savings and cost cutting ideas that are secured.

The 1957 clinics are designed for all levels of servicing and accounting personnel as well as for all engaged in the insurance end of the business.

MBA-NYU Senior Executives Course Offered for 12th Time in January

Second event in the MBA January schedule is the 12th annual Senior Executives Conference sponsored by MBA in cooperation with the Graduate School of Business Administration of New York University—always one of the most popular offerings of the Association. The dates are January 22-24, the place is the same—the downtown campus of the University—and the overall theme this year is "The Shortage of Mortgage Funds: Causes and Solutions."

The NYU course, as is true for the similar event to follow at Southern Methodist University in Dallas, is restricted as to attendance. The idea from the beginning has been to limit the number who attend so that the Conference may achieve a close intimate conference atmosphere. The meeting is designed as a sort of "economic retreat," where top officials from mortgage lending and investing institutions may study the basic trends affecting the economy at the moment, so they will be better prepared to meet the every-day problems they encounter. Attendance at NYU is limited to 135, no guests will be permitted even at the dinner session opening the Conference.

MBA President John F. Austin, Jr. will make the introductory talk at the dinner session.

Roger Murray

John F. Austin Jr.

Regarding the economic factors presently affecting the mortgage market, the long-term outlook will be discussed by Martin Gainsbrugh, Adjunct Professor of Economics, NYU and Chief Economist, National Industrial Conference Board.

The short-term outlook will be discussed by Dr. G. Rowland Collins, Dean, Graduate School of Business Administration, NYU.

As to why mortgage funds are in short supply, the demand for money by corporations will be discussed by Dr. Jules I. Bogen, Professor of Finance, New York University and former editor of The Journal of Commerce.

The Federal Reserve policy will be discussed by Dr. Marcus Nadler, Professor of Finance, NYU and Research Director, Institute of International Finance.

The VA-FHA rate situation will be discussed by Dr. George T. Conklin, Jr., Financial Vice President, Guardian Life Insurance Company of America.

In the session devoted to secondary mortgage institutions, the need for commercial bank funds for financing future building will be discussed by Dr. J. Brooke Willis, Economist, Savings Banks Trust Company and Associate Professor of Banking, Columbia University.

Present and prospective secondary markets for mortgages will be explored by Miles L. Colean, consultant in construction and finance.

The market in pension and welfare funds for mortgages will be discussed by Dr. Roger F. Murray, Associate Dean, Graduate School of Business, Columbia University.

Lewis O. Kerwood, MBA Director of Education and Research will supervise the Course for the Association.

L. E. Kerwood

Miles Colean

Marcus Nadler

George T. Conklin

Dean Collins

Dr. Jules Bogen

Second Senior Executives Course to Again Be Held at SMU Dallas

The third event on the January schedule is the companion offering, the second annual Senior Executives Conference sponsored by MBA in cooperation with Southern Methodist University in Dallas, January 27-29. The overall theme is the same—the current shortage of mortgage funds, causes and effects.

At the opening dinner meeting President John F. Austin, Jr. will preside as toastmaster and there will be talks by Mayor R. L. Thornton of Dallas, Dr. Willis M. Tate, president, Southern Methodist University, and Dr. Laurence Fleck, dean, School of Business Administration, SMU.


John Hall

The principal talk will be on the economic factors affecting the mortgage industry in 1957 by Dr. Arthur A. Smith, economist, First National Bank in Dallas.

The Texas MBA will be host at a reception for the conferees.

At the opening session the next morning, the theme will be how tight is the money market, with William H. Osler, Chairman of the MBA Educational Committee presiding.

The demand for funds will be analyzed by Dr. George Cline Smith, vice president and economist, F. W. Dodge Corporation, New York.

The role of the Federal Reserve Board in monetary policy will be discussed by C. Canby Balderston, vice chairman, Board of Governors of the Federal Reserve System, Washington, D. C.

At the third session, a luncheon meeting, MBA Vice President John C. Hall will preside. The subject and speaker will be "Mortgage Men Have Been Effective in Civic Affairs—Why Not in Government?" by H. Bruce Palmer, president, The Mutual Benefit Life Insurance Company, Newark, New Jersey.

At the fourth session, the conferees will look into the possibility of accelerating participation in mortgage lending with the chairman, Jerry B. Frey, Jr., president, Dallas MBA.

At the fifth session Tuesday morning the conferees will go into the matter of government participation in the mortgage industry. Ames L. Gill, president, Texas MBA, will be chairman and the two topics with speakers are "The Effect of a Higher VA-FHA Rate Upon the Supply of Mortgage Funds" by President John F. Austin, Jr. and "The Outlook for Continued Government Participation in Financing of the Housing Industry" by Dr. Theodore J. Kreps, Professor of Business Economics, Stanford University.


W. E. Osler


T. J. Kreps

The sixth and final session of the SMU Conference will likewise be a luncheon meeting, with toastmaster Dr. Roy L. McPherson, professor and chairman, Department of Finance, Southern Methodist University, Dallas.

A forecast for mortgage market trends in 1957 will be handled by Dr. G. Rowland Collins, Dean, Graduate School of Business Administration, NYU.

A summary of the talks at the Conference will close the meeting and will be handled by Dean Laurence Fleck, School of Business Administration, Southern Methodist University, Dallas.


George C. Smith


Jerry B. Frey

HOW LONG TIGHT MONEY?

(Continued from page 38)

J. Stewart Baker, president of the Chase Manhattan Bank, recently took a look at their loans to small business. He found that, "the number of commercial and instalment loans made to small business in amounts ranging from $1,000 to $100,000 had increased by 31 per cent in the year from August, 1955 to August, 1956. This hardly represented any pulling in of our horns. As a matter of fact, in many banks it is the loans to small business which will feel the pinch of tight money last. This follows naturally from the administrative process, since it is much easier to adopt curbs over larger loans than to apply them to a multiplicity of small and divergent transactions."

It also has been charged that high interest rates are enriching the banks and big money lenders at the expense of the little fellow.

Again this simply is a serious distortion of the truth.

Anyone who buys a life insurance policy is a money lender—about 103 million of them. Likewise everyone who contributes towards a pension fund is a money lender—about 12 million of them. The 67 million depositors in time and savings accounts and the 19 million shareholders of the savings and loan associations are also lenders. Actually the money lender is the little fellow. High interest rates not only give the small lender a few extra dollars as interest but also protects him from the ravages of inflation.

Only through a widespread educational campaign can our citizens be made to understand the importance of sound money and how the continued independence of the Federal Reserve Board is necessary.

Assuming the Federal Reserve Board retains its freedom of initiative, we will have tight money so long as demand for funds exceeds our rate of savings. We will have tight money so long as there is a shortage in our labor force and so long as the present rate of industrial expansion continues in the expectation of increasing profits. I leave it to your good judgment to decide when changes in any of these conditions are likely to occur.

Mr. Murphy addressed the National Association of Mutual Savings Banks.

George Ransford Detroit MBA Head

R. George Ransford, president of the Gleaner Life Insurance Society, was elected president of the Detroit MBA at their annual dinner. Homer B. Wells, executive vice president, Homer Warren & Company, was named vice president and Robert W. Hubert, vice president, Hannan Real Estate Exchange, Inc., was named secretary-treasurer. Above, seated, the new officers, Messrs. Wells, Ransford and Hubert. Standing, Elmer R. Field, Herman A. Kersten, John W. Matson, Harold N. Finney, Emmett Sullivan and William J. Stepek. James T. Barnes, also a governor, was not present when photo was taken.

Philadelphia MBA in Drama Presentation

Suspense ran high at the third annual Mortgage Servicing Seminar of the Philadelphia MBA when, as a feature of the program, a play, "The Truebloods Find a Home" or "How Mortgage Bankers Serve the Community" was presented.

The cast of this thriller included such names as Honey Lookhere, Marilyn Trueblood, Homer Trueblood, George Easy, Annie Question, Ivy Money and I. Will Keepitstrait. The companies mentioned in the script included Easy Buy Realty Company, Squeeze It Thru Mortgage Co., Speedy Credit Company, Highest Premium Life Insurance Co. and Happy Home Heights (High on a Hill), and the loan in question was a GI mortgage of $14,650 on a $14,990 sales price. It was all in good fun with the objective being to acquaint beginners at the Seminar with the terms, procedures and practices in connection with the origination of a loan. Jackson G. Denton was commentator. Nearly 200 attended the all-day session.

A. A. Johnson, vice president, Colonial Mortgage Service Company, Upper Darby, is chairman of the Servicing Committee. H. Bruce Thompson, retiring Philadelphia MBA President, addressed the group. There were two panel discussions, one on escrow analysis, with Lemuel Holt as moderator and panel members including T. A. McCullion, Eastern Mortgage Service Co., J. L. Korson, Peoples Bond and Mortgage Co. and G. Pims, South Jersey Mortgage Co. The second panel discussion was on delinquent loans and members included J. G. Murphy, Eastern Mortgage Service Co. and A. J. Ibbotson, Philadelphia Saving Fund Society.

Money Ease Not Soon Says Pres. J. F. Austin

There is still little prospect for a moderation in interest rates except for the anticipated short periods of technical re-adjustment, thus our problem at the moment is learning to live with tight money rather than hoping to escape from it, MBA President John F. Austin, Jr. said in an address before a joint meeting of the Birmingham MBA, the city's Real Estate Board and its Home Builders Association. Birmingham is home base for Vice President John C. Hall.

He said 1957 should be a good one for conventional lending.

"This seems especially true of loans on commercial and industrial properties," said President Austin.

"It should also be true for conventional residential loans, where activity has been notably stable. A greater volume of conventional home mortgage funds will be available in 1957 than last year.

"The indeterminable part of the outlook is that affected by FHA and VA activity. In 1956, starts financed under these operations have dropped 30 per cent below the 1955 level—from about 670,000 starts to less than 470,000.

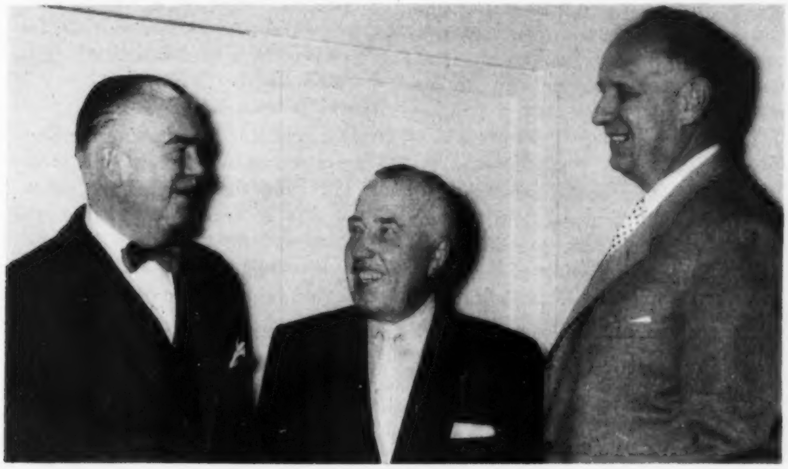
"The FHA has taken the first step in making an answer somewhat more predictable when the interest rate on FHA-insured loans was raised to 5 per cent.

"Now if action on the VA rate is taken by Congress soon after convening next year, a level of activity close to that of 1956 can be expected for the coming year.

"To put it another way, without a prompt adjustment of the VA rate, the outlook for 1957 is for starting under one million new houses. With a prompt adjustment of the VA rate, there is good reason to look forward to at least as great a volume as we had in 1956, about 1,100,000 starts."

About 250 attended the luncheon meeting. William B. Phillips, Jr., president of the Birmingham MBA, presented President Austin with an engraved gold key to the City *(see photo)*.

California MBA Plans 1957 Meet



California MBA officers, directors and comittee chairmen got started early in planning their annual convention in Palm Springs, California next April. They held a pre-convention planning session at El Mirador Hotel in Palm Springs. Above, left to right, Willis R. Bryant, vice president, American Trust Company, San Francisco and president, California MBA; Charles E. Becker, president, Franklin Life Insurance Company, Springfield, Illinois; John J. Lyman, vice president, Dwyer-Curlett & Co., and director, California MBA. Mr. Becker was in the desert city at the time of the planning meeting.

Others who were there (*below*) left to right, William Schroll, vice president, California Bank, Los Angeles; Gordon Stimson, vice president, Wallace Moir Company, Beverly Hills and vice president, California MBA; C. C. De Witt, Jr., East Bay Mortgage Service, Oakland and director, California MBA; Mr. Bryant; and Edward Muhsfeld, vice president, Insurance Funds Mortgage Company and director, California MBA.

Plan Modernization Of Foreclosure Law

The Chicago and Illinois MBAs have joined forces to attempt to effect major changes in the State's foreclosure laws. Illinois has one of the most unfavorable foreclosure statutes in the country.

The two groups will urge the next legislature to take action simplifying foreclosure provisions and shortening time involved in proceedings.

One proposal would allow the property owner to sign over his title without prolonged litigation and eliminate his personal liability on the difference of what the real estate will bring in sale and the amount owed.

The associations contend that existing laws have acted to keep mortgage funds out of this state. Present procedures are costly to both investors and property owners.

"Many important pension funds, large savings banks and life insurance companies will not make money available for home loans in Illinois," the CMBA and IMBA declared in a joint report.

"Chief factor in this is that Illinois has one of the longest and costliest foreclosure procedures in the nation."

Officials of the associations said that under present redemption provisions it usually takes 18 months, and in some instances up to two years, to complete a foreclosure.

If the homeowner recovers the property, he must bear all costs.

The associations reported that Superior Court records show that cost of foreclosing a mortgage debt of $8,231 in a sample case in 1954 ran $811.

The CMBA and IMBA proposed these changes:

» Permit the entry of a voluntary consent decree, giving title to the holder of the mortgage. The personal liability of the property owner would be eliminated. Other creditors would have three months to exercise their right of redemption.

» In cases where the fair market value of the property is appraised at less than 90 per cent of the mortgage indebtedness, the court could permit a waiver by the mortgage holder of the personal liability of the property owner.

The owner would be given a three-month redemption period, with other creditors allowed another three months.

» In other cases, the property-owner would continue to have a 12-month redemption period, but other creditors would redeem within the last three months of this period instead of the succeeding three months.

» If other creditors redeemed, the property owner would retain the right to redeem the 12-month period, but he would have to pay the mortgage indebtedness as well as the amount due the other creditors.

» A bank or trust company holding title to real estate under a land trust would waive redemption rights in the same manner as now authorized by law for corporations.

Mortgages Got Major Share of Life Money

Even though money was tight in the mortgage field in 1956, the nation's life companies set a new record for the year in money loaned on mortgages.

The 1956 total of mortgage acquisitions of all U. S. life companies is estimated at $6,800,000,000. Such a figure would represent some $200,000,000 more than the year before, $1,500,000,000 more than in 1954 and $5,100,000,000 more than ten years ago.

VA mortgages accounted for $1,750,000,000 of the 1956 new mortgages, about $90,000,000 less than the year before, but $370,000,000 more than in 1954.

FHA mortgages accounted for $950,000,000 in 1956, some $91,000,000 less than the 1955 total of $1,041,000,000 but $280,000,000 more than in 1954.

Conventional mortgages, which comprise the greater part of the life companies' total mortgage acquisitions, totaled $3,600,000,000 in 1956, up $380,000,000 in the year but $280,000,000 more than in 1954.

Farm mortgages made up the balance of 1956 acquisitions, totaling $500,000,000, or about the same as the year before.

The life companies' holdings of mortgages at year-end are estimated at $33,100,000,000, which would be a rise of $3,700,000,000 from the start of the year and $7,100,000,000 more than two years ago.

The 1956 holdings of the life companies comprised $7,300,000,000 of VA mortgages, $7,000,000,000 of FHA mortgages, $16,300,000,000 of conventional urban mortgages and $2,500,000,000 of farm mortgages.

According to the Institute of Life Insurance, it is probable that, if the demand for construction continues, the volume of mortgages financed by the life companies during 1957 will be around the $7,000,000,000 mark. In their budget planning for the coming year, most companies appear to be setting up about the same total of funds for this portfolio. The actual financing, of course, will be determined by competitive conditions, not only in the mortgage market, but in the capital markets as a whole.

A record flow of life insurance dollars into communities from coast to coast may be expected during 1957. Benefit payments to American families will more than likely exceed $6,250,000,000, which would be over $400,000,000 more than was paid in 1956.

In addition, probably not far from $6,000,000,000 of new capital will be made available from life insurance dollars for the financing of the economy throughout the United States.

Combined, these two sources of funds would represent some $12,000,000,000 in "social and economic aids." They would add up to about $5,500,000,000 more than was similarly made available during 1945, last year of World War II.

It is probable that purchases of new life insurance will set a new record in 1957 and that by year-end, aggregate life insurance ownership will have moved up to a new peak, possibly in excess of $450,000,000,000.

(Continued on page 47)

Sees 1957 as a Busy and Profitable Year

What's it going to be like in 1957 in the principal sectors of the economy which directly touch the field for mortgage lending? Emerson P. Schmidt, economist for the U. S. Chamber of Commerce, sizes it up like this:

CONSTRUCTION: Total construction in 1956 was about $44 billion as against $43 billion in 1955. The construction estimates for 1957 are up from 5 to 6 per cent. Most of them expect about a $46 billion rate of construction in 1957.

Public construction may rise from $13.4 to about $15 billion, up about 11 or 12 per cent. Public housing, including military housing, as well as the highway program, will be larger in the coming year. Highway construction is expected to be up about half a billion dollars.

Residential construction has contracted. In the first ten months of 1956 new housing starts totaled 972,000, down about 16 per cent from 1955. October showed 93,000 starts as against 106,000 a year ago. Raising the FHA interest rate will attract a little more capital into residential construction.

Probably, the new housing starts in 1957 will be very close to the 1956 rate, which will be on the order of 1.1 million. But total expenditure may rise because of rising costs and larger and more elaborate houses.

AGRICULTURE: The cost-price squeeze is continuing in agriculture. Farm prices have moved up moderately, but they have zigged and zagged, so the improvement is not substantial.

The Department of Agriculture believes that hog prices will be higher in 1957, possibly the highest since 1954. Cattle prices will be above the lows of 1956, according to the Department of Agriculture, and they may average very slightly above 1956.

Gross receipts of farmers—that is, total marketings and support payments—will probably be a little over 1956. But net income, because of the cost squeeze, is not likely to be much greater.

The farm implement companies are getting in better shape because they are working off their excess inventories.

MONEY & CREDIT: The growth in the money supply in the past year has been kept within modest limits. We normally think of the need over the long pull (rather than any one year) of about 3 to 5 per cent growth in the money supply to accommodate improvements in efficiency, productivity and the growth in the labor force —all at relatively stable over-all prices.

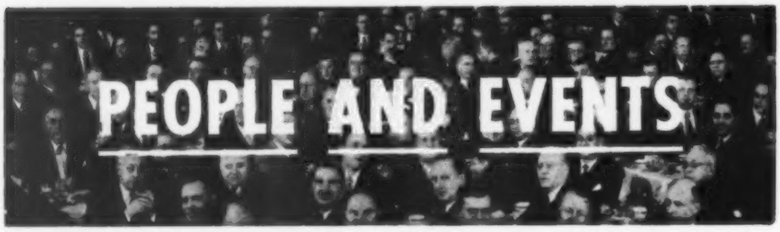
In the past year, currency and demand deposits increased only $.8 billion. But velocity of money has risen substantially. Banks have been well "loaned up" by limiting bank reserves. They have been in hock to the Federal Reserve now for several years. In order to increase their lending capacity, the banks have sold, at times at losses, part of their government bond portfolios.

Between the end of 1954 and August of 1956, the member banks of the Federal Reserve reduced their holdings of United States government securities by over $11 billion. The bulk of those sold were short-term, so the losses were minimized.

In this same period, while the banks were selling their governments, they increased their loans by $15 billion. Normally, as loans expand, deposits expand and thus the money supply expands. But through recent monetary policy, designed to prevent inflation, that has not happened, fortunately.

What this means is that the banks have become substantially less liquid than they were and, therefore, more vulnerable. The ratio of loans to deposits of weekly reporting member banks increased from 43 per cent in late 1954 to 56 per cent in September. And the interest rates have moved up. The Federal Reserve or the Administration get the blame for this rise, but it is really the demand for capital that is forcing these rates up.

So long as the Federal Budget is overbalanced and credit restraint continues, prices as a whole will not rise much, although in 1957 individual prices may vary more than was the case in 1956. As a boom develops we should expect prices of some scarce resources to rise. Serious inflation is wholly improbable—unless the international situation deteriorates materially!



Murray R. Waters, vice president, Aetna Life Insurance Company, and for many years head of its mortgage loan department, is retiring January 31 after 25 years with Aetna.

He entered the mortgage loan business in Minneapolis with M. R. Waters and Sons, Inc. and later became treasurer and vice president of Thorpe Bros. Inc. In 1933 he came to Hartford as manager of the Aetna's mortgage loan department.

When he joined Aetna, the Company had 16 correspondents, with a total mortgage account of $75 million and as he concludes his Aetna career the Company has 77 correspondents and $825 million of mortgages, in addition to investment real estate of $26 million.

Howard E. Green, president, Great Lakes Mortgage Corporation, Chicago, has been elected chairman of the University of Chicago Alumni Foundation.

December speaking engagements of **President John F. Austin, Jr.** included appearances before the Birmingham MBA, the Texas Home Builders Association, a Life magazine dinner in New York honoring Past President Aksel Nielsen and a luncheon in Washington for government agency officials. Exclusive of those events on the MBA 1957 calender in which he will participate, other up-coming engagements include:

January 10, Dallas Real Estate Board

January 15, Chicago MBA

January 16, Philadelphia MBA

February 13, Southern California MBA, Los Angeles

March 5, New Jersey MBA, Newark

March 19, Atlanta MBA

April 3-4-5, California MBA, Palm Springs

May 2, Wisconsin MBA

May 8-10, Texas MBA, San Antonio

June 20, Minneapolis-St. Paul MBA, Minneapolis

Irving Rose, president, First Mortgage Corporation, Detroit, announced that his firm has acquired all the outstanding stock of Irvin Jacobs & Company, Chicago, and two subsidiaries, Advance Mortgage Corporation and Hammann Mortgage Company. Irvin Jacobs & Company and subsidiaries have been dissolved into First Mortgage Corporation and, at the same time, the name of First Mortgage Corporation has been changed to Advance Mortgage Corporation. The sale involved more than one and a half million dollars.

The enlarged company will have offices in Detroit, Chicago, Dayton, Milwaukee and Grand Rapids and will serve a four state area. At present over 20,000 loans aggregating in excess of $200,000,000 are being serviced, placing this company among the largest of its kind in the country. **Irvin Jacobs** will remain active in the management as first vice president and vice chairman of the board. It is contemplated that all the personnel of Irvin Jacobs & Company will remain in present capacities.

Directors of Security Title Insurance Company, Los Angeles, elected **William H. Ahmanson** and **Jack Irvine,** to the board. Mr. Irvine is president of Western Mortgage Corporation, California mortgage loan correspondent for the Metropolitan Life Insurance Company. Mr. Ahmanson is secretary of the National American Insurance Company.

Dunbar Industries, Inc., Toledo, announced the appointment of **William G. Hodupp** to direct the company's mortgage financing. Mr. Hodupp will continue to serve as president of Toledo Home Mortgages, Inc., founded in 1953 by Mr. Dunbar and Mr. Hodupp. Formerly secretary and treasurer of Franklin Mortgage and Title Insurance Company, Newark, N. J., now Franklin Capital Corporation, Mr. Hodupp is well known in banking and insurance.

An effective case was made for the pressing need to free FHA and VA interest rates by **Lindell Peterson,** immediate past president of MBA, on Northwestern University's Reviewing Stand telecast and radio broadcast. He joined the panel group consisting of Harry Guthmann, professor of finance, The School of Commerce, Northwestern University; Beryle W. Sprinkel, economist, Harris Trust & Savings Bank, Chicago, and James H. McBurney, dean of the School of Speech, Northwestern University in discussing tight money but, as the discussion got underway, it developed into an opportunity to project the MBA position on VA and FHA interest rates.

What they talked about: at the recent Philadelphia MBA meeting, members heard **J. A. Livingston,** financial editor of the Philadelphia Bulletin, tell of his recent trip to

PERSONNEL

In answering advertisements in this column, address letters to box number shown in care of the Mortgage Bankers Association of America, 111 West Washington Street, Chicago 2, Illinois.

MORTGAGE EXECUTIVE

Presently head of mortgage company servicing over $50 million. Background 16 years in law, real estate titles, title insurance, savings and loan, and all phases residential lending and mortgagee activities. FHA, VA and conventional. Thorough knowledge of warehousing, construction loans, commitments, closing and mortgage marketing. Wide investor and bank acquaintance over eastern half of country. Excellent reason for wanting change. Will consider location anywhere with substantial mortgagee, life insurance company, bank or title company. Personal interview can be arranged where and when you wish. Write Box 406.

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We have buyers wishing to acquire mortgage companies and their service accounts in good localities between the Mississippi River and the Rocky Mountains, from Iowa and Nebraska south to North Texas.

Complete data will be handled in strictest confidence. Write Mid-Continent Realty Investments, Inc., c/o CA&E Properties, Inc., Brokers, 1419 Commerce Building, Kansas City, Missouri.

Russia where he inspected Soviet industrial development . . . at the recent Arizona MBA meeting in Tucson, members heard **Samuel P. Applewhite** of Phoenix discuss the future prospects of VHMCP. . . . **Lindell Peterson,** immediate past president of MBA, has been elected president of the Illinois chapter of the American Institute of Real Estate Appraisers.

M. S. Olson, vice president, General Mortgage Corporation of Iowa, Des Moines, has been elected president of the Des Moines Real Estate Board for 1957. His election also places him on the board of directors of the Greater Des Moines Chamber of Commerce. **William I. DeHuszar,** for ten years treasurer of Dovenmuehle, Inc., Chicago, has been elected to the additional office of administrative vice president. He originally joined Dovenmuehle, Inc., in 1941 and returned in 1945 after spending 2½ years in the Army in Military Intelligence Service. Formerly chairman, he is now a member of the MBA Mortgage Servicing Committee. He is the author of two nationally-recognized text books on mortgage banking, Mortgage Loan Servicing Practices and Mortgage Servicing, published by MBA.

Robert C. Drouet has been named assistant cashier of the Rapides Bank & Trust Co., Alexandria, Louisiana, Robert H. Bolton, announced. He started in the institution's mortgage loan department and, until recently, has been assistant manager of mortgage servicing. **Charles F. Curry** has retired from active management of the companies he headed in Kansas City, which include The Charles F. Curry Real Estate Company and Charles F. Curry and Company, the mortgage banking firm. The former will now be headed by his son, **Charles E. Curry** and the latter by **Donald R. Elbel.**

The senior Mr. Curry has been prominently engaged in real estate development, building and the mortgage and insurance fields for the past 32 years.

General Mortgage Corporation of Iowa, Des Moines, has purchased the loan servicing business of Weitz-Linn Investment Company, Des Moines, **E. R. Haley,** president, announced. **Earl Linn,** president of Weitz-Linn Investment Company, is a former regional vice president of MBA and is retiring from the mortgage business.

Northwestern Mutual Life Insurance Company has opened a mortgage loan regional office for six Southern states in Atlanta. **William B. Ross** is manager. For the past two years Ross has held the same post in Winston-Salem, N. C., where the office was previously located. Northwestern Mutual has more than $31 million invested in rural, urban and residential mortgages and real estate in these six states.

Mr. Ross joined Northwestern Mutual in 1949, serving six years as a loan representative for the company in San Francisco, before going to Winston-Salem. He is a native of Fresno, Calif. and received his master's degree in business administration from Stanford university.

Edgar T. Hussey has been elected president of the West Side Savings Bank, New York. He left R. H. Macy's in 1947 and joined the bank as an inspector of real estate. In 1950 he was appointed mortgage officer, in 1952 vice president and in January, 1956, was elected executive vice president and trustee. He is a graduate civil engineer of Manhattan College, a member of the board of directors of their Alumni Society and currently Chairman of their Engineering Alumni Development Fund.

OBITUARY

E. D. Schumacher, former president of MBA and the only man to serve two terms as head of the Association, died at his home in Memphis, December 11 after a long illness. Funeral services were in Memphis, with burial in Richmond, Virginia.

Mr. Schumacher was one of the most prominent mortgage bankers in the country with a career extending back more than forty years. He also was one of the most active members MBA ever had, both before his service as president in 1927-28 and up until the time of his illness.

He was one of the founders of United Service & Research in Memphis, serving as president from 1933 until May of 1956, when he became chairman and was succeeded by his son, Ernest P. Schumacher. He was a native of Texas and began his business career in Richmond, Virginia, in the banking field. His passing will be deeply felt in the Association and the industry. The high regard in which he was held in the mortgage industry was shared by those in his community. The Memphis Commercial Appeal said editorially:

"Memphis and the Mid-South have lost one to whom they owed a great deal in the death of Ernest Daniel Schumacher. His primary interest lay in dealing constructively and in businesslike manner with the problems of the farmers. His service in stabilizing seriously unsettled conditions to the benefit of all concerned during depression years was outstanding, and he continued such endeavors with marked success thereafter.

"Mr. Schumacher's intimate association with and understanding of the needs of agriculture inspired him to aid substantially in the conservation and improvement of the soil. Otherwise Mr. Schumacher was a good citizens on every front of civic activity. His contributions to his church were sustained and considerable, as was his participation in a wide variety of other useful community undertakings.

LIFE INVESTMENTS

(Continued from page 44)

This 1957 total of life insurance ownership, if attained, would be nearly three times the ownership at the end of World War II. On a family basis, the average ownership would have passed the $8,000 level, compared with $3,200 in 1945.

Continued expansion during 1957 of life insurance funds available for investment thus takes on special significance toward eliminating the problem of "tight money." Money will cease to be tight as soon as enough savings are available to meet the needs of business and industry.